Southland U	tilities, Inc.
Docket No.	

#### BEFORE THE

#### PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

#### **EXHIBIT**

#### TO ACCOMPANY THE

PREPARED DIRECT TESTIMONY

OF

PAULINE M. AHERN, CRRA PRINCIPAL AUS CONSULTANTS

ON BEHALF OF
SOUTHLAND UTILITIES, INC.
SEPTEMBER 2007

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# Southland Utilities, Inc. Summary of Cost of Capital and Fair Rate of Return Based on the Actual Consolidated Capital Structure of Utilities, Inc. at December 31, 2006

Type of Capital	Ratios (1)	Cost Rate	Weighted Cost Rate			
Total Debt	59.83 %	6.60	3.84%	3.84%		
Common Equity	40.17	11.60% - 12.20% (2)	4.66%	4.90%		
Total	100.00 %		8.50% -	8.74%		

<sup>(1)</sup> Company-provided,

<sup>(2)</sup> Based upon informed judgment from the entire study, the principal results of which are summarized on page 2 of this Schedule.

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#### Southland Utilities, Inc. Brief Summary of Common Equity Cost Rate

No	Principal Methods	Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1.	Discounted Cash Flow Model (DCF) (1)	9.8 %	10.1 %
2.	Risk Premium Model (RPM) (2)	10.8	11.0
3.	Capital Asset Pricing Model (CAPM) (3)	10.2	10.5
4.	Comparable Earnings Model (CEM) (4)	14.3	14.2
5.	Indicated Range of Common Equity Cost Rate before Adjustment for Business Risk	10.80 % -	- 11.40 %
6.	Business Risk Adjustment (5)	0.50	0.50
7.	Indicated Range of Common Equity Cost Rate after Adjustment for Business Risk	11.30 % -	- 11.90 %
8.	Financial Risk Adjustment (6)	0.30	0.30
9.	Recommended Range of Common Equity Cost Rate after Adjustment for Business and Financial Risk	<u>11.60</u> % -	- <u>12,20</u> %

- Notes: (1) From Schedule PMA-5 of this Exhibit.
  - (2) From page 1 of Schedule PMA-10 of this Exhibit.
  - (3) From page 1 Schedule PMA-11 of this Exhibit.
  - (4) From pages 2 and 5 of Schedule PMA-12 of this Exhibit.
  - (5) Business risk adjustment to reflect Southland Utilities, Inc.'s greater business risk due to its small size relative to each proxy group as detailed in Ms. Ahern's accompanying direct testimony.
  - (6) Financiel risk adjustment to reflect Southland Utilities, Inc.'s greate financial risk relative to each proxy group as detalled in Ms. Ahern's accompanying direct testimony.

## Southland Utilities, Inc. Derivation of Investment Risk Adjustment Based upon Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

1

2

<u>3</u>

<u>4</u>

<u>5</u>

Line No	<u>.</u>	 ıl Capitaliza Debt) for millions )	the Yea	el, Short-Term ar 2006 (times larger)				ation on July 10, 7 (1) (times larger)	Applicable Decile of the NYSE/AMEX/ NASDAQ	Applicable Size	-	Spread from Applicable Size Premium (2)
1.	Southland Utilities, Inc.	\$ 0.055	(3)									
A.	Based upon the Proxy Group of Eight AUS Utility Reports Water Companies				5	ذ	0.125		10 (4)	6.27%	(5)	
В.	Based upon the Proxy Group of Four Value Line (Standard Edition) Water Companies				9	Б	0.126		10 (4)	6.27%	(5)	
2.	Proxy Group of Eight AUS Utility Reports Water Companies	\$ 555.480	(6)	10,099.6 ×	× \$	5 7	710.535	5,684.3 x	8 - 9 (7)	2.49%	(8)	3.78%
3.	Proxy Group of Four Value Line (Standard Edition) Water Companies	\$ 898.745	(9)	16,340.8	\$	\$ 1,1	158.741	9,196.4	7 (10)	1.62%	(11)	4.65%

		Recent Total	Recent
	Number of	Market	Average
Decile	Companies	Capitalization (10)	Market
		( millions )	( millions )
1 - Largest	168	\$9,586,846.750	\$57,064.564
2	179	2,148,609.950	12,003.408
3	198	1,126,434.240	5,689.062
4	184	624,621.080	3,394.680
5	209	492,840.110	2,358.087
6	264	428,711,640	1,623.908
7	291	333,661.890	1,146.604
8	355	284,415.720	801.171
9	660	298,400.730	452.122
10 - Smallest	1744	229,218.310	131.433

See page 4 for notes.

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## Southland Utilities, Inc. Derivation of Investment Risk Adjustment Based upon Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE

#### Notes:

- (1) From page 5 of this Schedule.
- (2) Line No. 1 Line No. 2 and Line No. 1 Line No. 3 of Columns 3 and 4, respectively. For example, the 3 78% in Column 5, Line No. 2 is derived as follows 3.78%% = 6.27% 2.49%.
- (3) Company provided.
- (4) With an estimated market capitalization of \$0.125 million (based upon the proxy group of eight AUS Utility Reports water companies) and \$0.126 million (based upon the proxy group of four Value Line (Standard Edition) water companies), Southland Utilities, Inc. falls in the 10<sup>th</sup> decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$131.433 as shown in the table on the bottom half of page 3 of this Schedule.
- (5) Size premium applicable to the 10<sup>th</sup> decile of the NYSE/AMEX/NASDAQ as shown on page 15 of this Schedule.
- (6) From page 1 of Schedule PMA-3.
- (7) With an estimated market capitalization of \$710.535 million, the proxy group of eight AUS Utility Reports water companies falls between the 8<sup>th</sup> and 9<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ which have an average market capitalization of \$626.647 million as can be gleaned from the information shown in the table on the bottom half of page 3 of this Schedule.
- (8) Average size premium applicable to the 8<sup>th</sup> and 9<sup>th</sup> deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 15 of this Schedule.
- (9) From page 1 of Schedule PMA-4.
- (10) With an estimated market capitalization of \$1,158.741 million, the proxy group of four Value Line (Standard Edition) water companies falls in the 7<sup>th</sup> decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$1,146.604 million as shown in the table on the bottom half of page 3 of this Schedule.
- (11) Size premium applicable to the 7<sup>th</sup> decile of the NYSE/AMEX/NASDAQ as shown on page 15 of this Schedule.

#### Southland Utilities, Inc.

#### Market Capitalization of Southland Utilities, Inc.

the Proxy Group of Eight AUS Utility Reports Water Companies and the the Proxy Group of Four Value Line (Standard (Edition) Water Companies

	7		=		-		-	<del>-</del>		
Company	Common Slock Shares Outstanding at March 31, 2007 ( millions )	Share a	Value per at March 31, 007 (1)	Equit 3:	i Common y at March 1, 2007 nillions i	Marke	ng Stock et Price on 10, 2007	Market-to-Book Ratio at July 10, 2007 (2)	July	Market italization on 10, 2007 (3) millions )
Southland Utilities, Inc.	<u>NA</u> (4)		NA	\$	0.055 (4)		NA.	227.4 % (5)	\$	0.125 (6)
Based upon the Proxy Group of Eight AUS Utility Reports Water Companies								227.4		(0)
Based upon the Proxy Group of Four Value Line (Standard Edition) Water Companies								228.7 % (7)	\$	0.126 (8)
Proxy Group of Eight AUS Utility Reports Water Companies	47.055	\$	16.847	s	287.319	<b>3</b>	35,260	209.3 %	\$	601.359
American States Water Co. Aqua America, Inc.	17,055 133,261	3	6.965	3	928.164	ű	22.280	319.9 131.0	•	2,969.055 120,442
Artesian Resources Corp.	6.273 20.659		14.659 18.100		91.958 373.930		19,200 36,690	202.7		757,979
California Water Service Group Connecticut Water Service Inc.	8.304		11.928		99.049		24.580	206.1		204.112
Middlesex Water Company	13.168		9.806		129.121		18.860 31.970	192.3 257.1		248.348 585.435
SJW Corp.	18.312 11.218		12,435 5.854		227.707 65.672		17,610	300.8		197.549
York Water Company Average	28.531	\$	12.074	\$	275.365	\$	25.806	227.4 %	\$	710.535
Proxy Group of Four Value Line (Standard Edition) Water Companies										
American States Water Co.	17.055	\$	16.847	\$	287.319	\$	35.2 <del>6</del> 0	209.3 %	\$	601.359
Aqua America, Inc.	133.261		6,965 18,100		928,164 373,930		22.280 36.690	319.9 202.7		2,969.055 757.979
California Water Service Group	20.659 24.026		6.977		167.641		12.760	182.9		306.572
Southwest Water Company	48.750	\$	12.222	\$	439.264	\$	26.748	228.7 %	\$	1,158.741
	40.100					-				

NA = Not Available

- Notes: (1) Column 3 / Column 1.
  - (2) Column 4 / Column 2.
  - (3) Column 5 \* Column 3.
  - (4) Company-provided at June 30, 2007

(5) The market-to-book ratio of Southland Utilities, Inc. at July 10, 2007 is assumed to be equal to the average market-to-book ratio at July 10, 2007 of the proxy group of eight AUS Utility Reports water companies.

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- (6) Southland Utilities, inc's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at July 10, 2007 of the proxy group of eight AUS Utility Reports water companies, 227.4%, and Southland Utilities, Inc.'s market capitalization at July 10, 2007 would therefore have been \$0.125 million. (\$0,125 = \$0.055 \* 227.4%).
- (7) The merket-to-book ratio of Southland Utilities, Inc. at July 10, 2007 is assumed to be equal to the average market-to-book ratio at July 10, 2007 of the proxy group of four Value Line (Standard Edition) water companies.
- (8) Southland Utilities, Inc.'s common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at July 10, 2007 of the proxy group of four Value Line (Standard Edition) water companies, 228.7%, and Southland Utilities, Inc.'s market capitalization at July 10, 2007 would therefore have been \$0.126 million. (\$0.126 = \$0.055 \* 228.7%).

5

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Stocks, Bonds, Bills, and Inflation

Market Results for 1926–2006

**2007 Yearbook** Valuation Edition



## Chapter 7

Firm Size and Return

#### The Firm Size Phenomenon

One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies, which have higher returns on average than larger ones. Many studies have looked at the effect of firm size on return. In this chapter, the returns across the entire range of firm size are examined.

#### Construction of the Decile Portfolios

The portfolios used in this chapter are those created by the Center for Research in Security Prices (CRSP) at the University of Chicago's Graduate School of Business. CRSP has refined the methodology of creating size-based portfolios and has applied this methodology to the entire universe of NYSE/AMEX/NASDAQ-listed securities going back to 1926.

The New York Stock Exchange universe excludes closed-end mutual funds, preferred stocks, real estate investment trusts, foreign stocks, American Depository Receipts, unit investment trusts, and Americus Trusts. All companies on the NYSE are ranked by the combined market capitalization of their eligible equity securities. The companies are then split into 10 equally populated groups, or deciles. Eligible companies traded on the American Stock Exchange (AMEX) and the Nasdaq National Market (NASDAQ) are then assigned to the appropriate deciles according to their capitalization in relation to the NYSE breakpoints. The portfolios are rebalanced, using closing prices for the last trading day of March, June, September, and December. Securities added during the quarter are assigned to the appropriate portfolio when two consecutive month-end prices are available. If the final NYSE price of a security that becomes delisted is a month-end price, then that month's return is included in the quarterly return of the security's portfolio. When a month-end NYSE price is missing, the month-end value of the security is derived from merger terms, quotations on regional exchanges, and other sources. If a month-end value still is not determined, the last available daily price is used.

Base security returns are monthly holding period returns. All distributions are added to the monthend prices, and appropriate price adjustments are made to account for stock splits and dividends. The return on a portfolio for one month is calculated as the weighted average of the returns for its individual stocks. Annual portfolio returns are calculated by compounding the monthly portfolio returns.

#### Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Nearly two-thirds of the market value is represented by the first decile, which currently consists of 168 stocks, while the smallest decile accounts for just over one percent of the

<sup>1</sup> Rolf W. Banz was the first to document this phenomenon. See Banz, Rolf W. "The Relationship Between Returns and Market Value of Common Stocks," Journal of Financial Economics, Vol. 9, 1981, pp. 3-18.

market value. The data in the second column of Table 7-1 are averages across all 81 years. Of course, the proportion of market value represented by the various deciles varies from year to year.

Columns three and four give recent figures on the number of companies and their market capitalization, presenting a snapshot of the structure of the deciles near the end of 2006.

Table 7-1
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition
1926 through September 30, 2006

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1-largest	53.26%	168	\$9,586,846,750	61,64%
2	13.97%	179	2,148,609,950	13.B1%
3	7.57%	198	1,126,434,240	7.24%
4	4.73%	184	624,621,080	4.02%
5	3.24%	209	492,840,110	3.17%
6	2.38%	264	428,711,640	2.76%
7	1.74%	291	333,661,890	2.15%
8	1.29%	355	284,415,720	1,83%
9	1.00%	660	298,400,730	1.92%
10-Smallest	0.82%	1,744	229,218,310	1.47%
Mid-Cap 3-5	15.54%	591	2,243,894,380	15.41%
Low-Cap 6-8	5 41%	910	1,046,789,110	7.19%
Micro-Cap 9-10	1.83%	2,404	527,619,100	3.62%

Source: © 200703 CRSP® Center for Research in Security Prices. Graduate School of Business, The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu

Historical average percentage of total capitalization shows the average, over the last 81 years, of the decile market values as a percentage of the total NYSE/AMEX/NASDAQ calculated each month. Number of companies in deciles, recent market capitalization of deciles, and recent percentage of total capitalization are as of September 30, 2006.

Table 7-2 gives the current breakpoints that define the composition of the NYSE/AMEX/NASDAQ size deciles. The largest company and its market capitalization are presented for each decile. Table 7-3 shows the historical breakpoints for each of the three size groupings presented throughout this chapter. Mid-cap stocks are defined here as the aggregate of deciles 3-5. Based on the most recent data (Table 7-2), companies within this mid-cap range have market capitalizations at or below \$7,777,183,000 but greater than \$1,946,588,000. Low-cap stocks include deciles 6-8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below \$1,946,588,000 but greater than \$626,955,000. Micro-cap stocks include deciles 9-10 and include companies with market capitalizations at or below \$626,955,000. The market capitalization of the smallest company included in the micro-capitalization group is currently \$2,247,000.

Table 7-2
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization by Decile

September 30, 2006

Decile	Market Capitalization of Largest Company (in thousands)	Сотрапу Мате
1-Largest	\$371,187,368	Exxon Mobil Corp.
2	16,820,566	EOG Resources Inc.
3	7,777,183	Xcel Energy Inc.
4	4,085,184	First American Corp /CA
5	2,848,771	Scotts Miracle Gro Co.
6	1,946,588	DRS Technologies Inc.
7	1,378,476	ESCO Technologies Inc.
8	976,624	Knott Inc
9	626,955	Bandag Inc.
10-Smallest	314,433	M & F Worldwide Corp.

Source: Center for Research in Security Prices, University of Chicago

#### Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926–2006 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 9 percent in 1977, the smallest stocks rose more than 20 percent. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and tenth decile returns was far more substantial, with the largest stocks rising 46 percent, and the smallest stocks rising 224 percent. This divergence in the performance of small and large company stocks is a common occurrence.

Table 7-3
Size-Decile Portfolios of the NYSE/AMEX/NASDAO
Largest and Smallest Company by Size Group

from 1926 to 1965

Capitalization of Largest Company (in thousands)				Capitalization of Smallest Company (in thousands)				
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10		
1926	\$61,490	\$13,835	\$4,263	\$13,860	\$4,278	\$43		
1927	\$65,078	\$14,522	\$4,45D	\$14,664	\$4,496	\$65		
1928	\$81,095	\$18,788	\$5,119	\$18,801	\$5,170	\$135		
1929	\$103,054	\$24,300	\$5,850	\$24,328	\$5,862	\$118		
1930	\$65,750	\$12,918	\$3,356	\$13,050	\$3,359	\$30		
1931	\$43,120	\$8,142	\$1,944	\$8,222	\$1,946	\$15		
1932	\$12,667	\$2,208	\$468	\$2,223	\$469	\$19		
1933	\$40,298	\$7,280	\$1,875	\$7,346	\$1,892	\$120		
1934	\$38,019	\$6,638	\$1,691	\$6,669	\$1,722	\$69		
1935	\$37,631	\$6,549	\$1,350	\$6,605	\$1,383	\$38		
1936	\$46,980	\$11,526	\$2,800	\$11,563	\$2,801	\$98		
1937	\$51,750	\$13,635	\$3,563	\$13,793	\$3,600	\$68		
1938	\$36,102	\$8,372	\$2,195	\$8,400	\$2,200	\$60		
1939	\$35,409	\$7,478	\$1,854	\$7,500	\$1,860	\$75		
1940	\$30,930	\$8,007	\$1,872	\$8,130	\$1,929	\$51		
1941	\$31,39B	\$8,336	\$2,087	\$8,357	\$2,100	\$72		
1942	\$26,037	\$6,870	\$1,779	\$6,875	\$1,788	\$82		
1943	\$42,721	\$11,403	\$3,847	\$11,475	\$3,903	\$395		
1944	\$46,221	\$13,066	\$4,812	\$13,068	\$4,820	\$309		
1945	\$55,268	\$17,575	\$6,428	\$17,584	\$6,466	\$225		
1946	\$77,784	\$24,192	\$10,149	\$24,199	\$10,168	\$829		
1947	\$57,942	\$17,735	\$6,380	\$17,872	\$6,410	\$747		
1948	\$67,238	\$19,632	\$7,329	\$19,651	\$7,348	\$784		
1949	\$56,082	\$14,549	\$5,108	\$14,577	\$5,112	\$379		
1950	\$66,143	\$18,675	\$6,225	\$18,700	\$6,243	\$303		
1951	\$82,517	\$22,750	\$7,598	\$22,860	\$7,600	\$668		
1952	\$97,936	\$25,452	\$8,480	\$25,532	\$8,551	\$480		
1953	\$98,595	\$25,374	\$8,168	\$25,395	\$8,177	<b>\$</b> 459		
1954	\$125,834	\$29,707	\$8,488	\$29,791	\$8,502	\$463		
1955	\$170,829	\$41,681	\$12,444	\$41,861	\$12,524	\$553		
1956	\$183,792	\$46,886	\$13,623	\$47,103	\$13,659	\$1,122		
1957	\$194,300	\$47,658	\$13,848	\$48,509	\$13,950	\$925		
1958	\$195,536	\$46,774	\$13,816	\$46,871	\$14,015	\$550		
1959	\$256,283	\$64,110	\$19,548	\$64,221	\$19,701	\$1,804		
1960	\$252,292	\$61,529	\$19,344	\$61,596	\$19,385	\$831		
1961	\$301,464	\$77,996	\$23,562	\$78,976	\$23,613	\$2,455		
1962	\$250,786	\$58,785	\$18,744	\$58,866	\$18,952	\$1,018		
1963	\$308,903	\$71,846	\$23,927	\$71,971	\$24,056	\$296		
1964	\$349,675	\$79,508	\$25,595	\$79,937	\$25,607	\$223		
1965	\$365,675	\$84,600	\$28,483	\$85,065	\$28,543	\$250		

Source: Center for Research in Security Prices, University of Chicago.

Firm Size and Return

Table 7-3 (continued)
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
Largest and Smallest Company by Size Group

from 1966 to 2006

from 1966										
	Capitalization of Largest Company (in thousands)				Capitalization of Smallest Company (in thousands)					
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10				
1966	\$403,137	\$99,960	\$34,884	\$100,107	\$34,965	\$381				
1967	\$459,438	\$118,988	\$42,188	\$119,635	\$42,237	\$381				
1968	\$531,306	\$150,893	\$60,543	\$151,260	\$60,719	\$592				
1969	\$518,485	\$146,792	\$54,353	\$147,311	\$54,503	\$2,119				
1970	\$382,884	\$94,754	\$29,916	\$94,845	\$29,932	\$822				
1971	\$551,690	\$147,426	\$45,570	\$147,810	\$45,571	\$865				
1972	\$557,181	\$143,835	\$46,728	\$144,263	\$46,757	\$1,031				
1973	\$431,354	\$96,699	\$29,352	\$96,710	\$29,430	\$561				
1974	\$356,876	\$79,878	\$23,355	\$80,280	\$23,400	\$444				
1975	\$477,054	\$102,313	\$30,353	\$103,283	\$30,394	\$540				
1976	\$566,296	\$121,717	\$34,864	\$121,992	\$34,901	\$564				
1977	\$584,577	\$139,196	\$40,700	\$139,520	\$40,765	\$513				
1978	\$580,881	\$164,093	\$47,927	\$164,455	\$48,038	\$830				
1979	\$665,019	\$177,378	\$51,197	\$177,769	\$51,274	\$948				
1980	\$762,195	\$199,312	\$50,496	\$199,315	\$50,544	\$549				
1981	\$962,397	\$264,690	\$72,104	\$264,783	\$72,450	\$1,446				
1982	\$770,517	\$210,301	\$55,336	\$210,630	\$55,423	\$1,060				
1983	\$1,209,911	\$353,889	\$104,382	\$356,238	\$104,588	\$2,025				
1984	\$1,075,436	\$315,965	\$91,004	\$315,103	\$91,195	\$2,093				
1985	\$1,440,436	\$370,224	\$94,875	\$370,729	\$94,887	\$760				
1986	\$1,857,621	\$449,015	\$110,617	\$449,462	\$110,953	\$706				
1987	\$2,059,143	\$468,948	\$113,419	\$470,662	\$113,430	\$1,277				
1988	\$1,957,926	\$421,340	\$94,449	\$421,675	\$94,573	\$696				
1989	\$2,145,947	\$480,975	\$100,285	\$483,623	\$100,384	\$96				
1990	\$2,171,217	\$474,065	\$93,750	\$474,477	\$93,790	\$132				
1991	\$2,129,863	\$457,958	\$87,586	\$458,853	\$87,733	\$278				
1992	\$2,428,671	\$500,327	\$103,352	\$500,346	\$103,500	\$510				
1993	\$2,705,192	\$603,588	\$137,105	\$607,449	\$137,137	\$602				
1994	\$2,470,244	\$596,059	\$148,104	\$597, <b>975</b>	\$148,216	\$598				
1995	\$2,789,938	\$647,210	\$155,386	\$647,253	\$155,532	\$89				
1996	\$3,142,657	\$751,316	\$193,001	\$751,680	\$193,016	\$1,043				
1997	\$3,484,440	\$813,923	\$228,900	\$814,355	\$229,058	\$585				
1998	\$4,216,707	\$925,688	\$252,553	\$926,215	\$253,031	\$1,671				
1999	\$4,251,741	\$875,309	\$220,397	\$875,582	\$220,456	\$1,502				
2000	\$4,143,902	\$840,000	\$192,083	\$840,730	\$192,439	\$1,393				
2001	\$5,156,315	\$1,108,224	\$265,734	\$1,108,969	\$265,736	\$443				
2002	\$4,930,326	\$1,116,525	\$308,980	\$1,124,331	\$309,245	\$501				
2003	\$4,744,580	\$1,163,369	\$329,060	\$1,163,423	\$329,529	\$332				
2004	\$6,241,953	\$1,607,854	\$505,437	\$1,607,931	\$506,410	\$1,393				
2005	\$7,187,244	\$1,728,888	\$586,393	\$1,729,364	\$587,243	\$1,079				
2006	\$7,777,183	\$1,946,588	\$626,955	\$1,947,240	\$627,017	\$2,247				

Table 7-4
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Summary Statistics of Annual Returns
1926–2006

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	9.6	11.3	19.06	0.09
2	11.0	13.3	21.72	0.03
3	11.3	13.8	23.51	-0.02
4	11.3	14.3	25.78	-0.02
5	11.7	14.9	26.61	0.02
6	11.8	15.3	27.67	0.04
7	11.7	15.6	29.80	0.01
8	11.9	16.6	33.27	0.04
9	12 1	17.5	36.31	0.05
10-Smallest	14.0	21.6	45.16	0.15
Mid-Cap, 3–5	11.4	14.2	24.59	0.02
Low-Cap, 6-8	11.8	15.7	29.34	0.03
Micro-Cap, 9–10	12.8	18.8	38.92	0 08
NYSE/AMEX/NASDAO Total Value-Weighted Index	10.1	12.1	20.08	0 03

Source: Center for Research in Security Prices, University of Chicago

#### Aspects of the Firm Size Effect

The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have had returns in excess of those implied by their betas.

Second, the calendar annual return differences between small and large companies are serially correlated. This suggests that past annual returns may be of some value in predicting future annual returns. Such serial correlation, or autocorrelation, is practically unknown in the market for large stocks and in most other equity markets but is evident in the size premia.

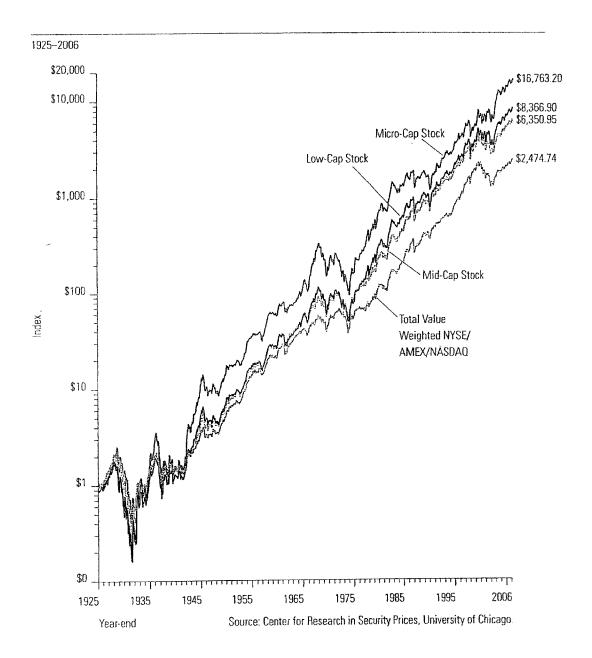
Third, the firm size effect is seasonal. For example, small company stocks outperformed large company stocks in the month of January in a large majority of the years. Such predictability is surprising and suspicious in light of modern capital market theory. These three aspects of the firm size effect—long-term returns in excess of systematic risk, serial correlation, and seasonality—will be analyzed thoroughly in the following sections.

Firm Size and Return

Graph 7-1

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ: Wealth Indices of Investments in Mid-, Low-, Micro- and Total Capitalization Stocks

Year-end 1925 = \$1.00



#### Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 81 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

$$k_{i} = r_{i} + (\beta_{i} \times ERP)$$

Table 7-5 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by  $\beta$  (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk). Beta measures the extent to which a security or portfolio is exposed to systematic risk. The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

A beta greater than one indicates that the security or portfolio has greater systematic risk than the market; according to the CAPM equation, investors are compensated for taking on this additional risk. Yet, Table 7-5 illustrates that the smaller deciles have had returns that are not fully explained by their higher betas. This return in excess of that predicted by CAPM increases as one moves from the largest companies in decile 1 to the smallest in decile 10. The excess return is especially pronounced for microcap stocks (deciles 9–10). This size-related phenomenon has prompted a revision to the CAPM, which includes a size premium. Chapter 4 presents this modified CAPM theory and its application in more detail.

This phenomenon can also be viewed graphically, as depicted in the Graph 7-2. The security market line is based on the pure CAPM without adjustment for the size premium. Based on the risk (or beta) of a security, the expected return lies on the security market line. However, the actual historic returns for the smaller deciles of the NYSE/AMEX/NASDAQ lie above the line, indicating that these deciles have had returns in excess of that which is appropriate for their systematic risk.

<sup>2</sup> The equity risk premium is estimated by the 81-year arithmetic mean return on large company stocks, 12.34 percent, less the 81-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.21 percent. (It is appropriate, however, to match the maturity, or duration, of the riskless asset with the investment horizon.) See Chapter 5 for more detail on equity risk premium estimation.

<sup>3</sup> Historical betas were calculated using a simple regression of the monthly portfolio (decile) total returns in excess of the 30-day U.S. Treasury bill total returns versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2006. See Chapter 6 for more detail on beta estimation.

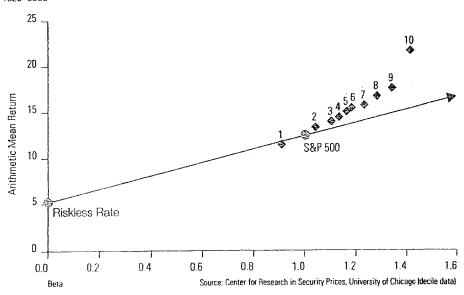
Table 7-5
Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ
1926~2006

Decile	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.35%	6.13%	6.49%	-0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1.10	13.85%	8.64%	7.82%	0.81%
4	1.13	14 28%	9.07%	8.04%	1.03%
5	1.16	14.92%	9.71%	8.26%	1.45%
6	1.18	15.33%	10.11%	8.45%	1.67%
7	1.23	15 63%	10.42%	8.80%	1.62%
8	1.28	16.61%	11.39%	9.12%	2.28%
9	1.34	17.48%	12.27%	9.57%	2.70%
10-Smallest	1.41	21.57%	16.36%	10.09%	6.27%
Mid-Cap, 3-5	1.12	14 15%	8.94%	7.97%	0.97%
Low-Cap, 6-8	1 22	15.67%	10.46%	8.70%	1.76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9.68%	3.88%

<sup>\*</sup>Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926—December 2006.

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12 34 percent) minus the arithmetic mean income return component of 20-year government bonds (5.21 percent) from 1926–2006

Graph 7-2
Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
1926–2006



<sup>\*\*</sup>Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 percent).

#### Further Analysis of the 10th Decile

The size premia presented thus far do a great deal to explain the return due solely to size in publicly traded companies. However, by splitting the 10th decile into two size groupings we can get a closer look at the smallest companies. This magnification of the smallest companies will demonstrate whether the company size to size premia relationship continues to hold true.

As previously discussed, the method for determining the size groupings for size premia analysis was to take the stocks traded on the NYSE and break them up into 10 deciles, after which stocks traded on the AMEX and NASDAQ were allocated into the same size groupings. This same methodology was used to split the 10th decile into two parts: 10a and 10b, with 10b being the smaller of the two. This is equivalent to breaking the stocks down into 20 size groupings, with portfolios 19 and 20 representing 10a and 10b.

Table 7-7 shows that the pattern continues; as companies get smaller their size premium increases. There is a noticeable increase in size premium from 10a to 10b, which can also be demonstrated visually in Graph 7-3. This can be useful in valuing companies that are extremely small. Table 7-6 presents the size, composition, and breakpoints of deciles 10a and 10b. First, the recent number of companies and total decile market capitalization are presented. Then the largest company and its market capitalization are presented.

Breaking the smallest decile down lowers the significance of the results compared to results for the 10th decile taken as a whole, however. The same holds true for comparing the 10th decile with the Micro-Cap aggregation of the 9th and 10th deciles. The more stocks included in a sample the more significance can be placed on the results. While this is not as much of a factor with the recent years of data, these size premia are constructed with data back to 1926. By breaking the 10th decile down into smaller components we have cut the number of stocks included in each grouping. The change over time of the number of stocks included in the 10th decile for the NYSE/AMEX/NASDAQ is presented in Table 7-8. With fewer stocks included in the analysis early on, there is a strong possibility that just a few stocks can dominate the returns for those early years.

While the number of companies included in the 10th decile for the early years of our analysis is low, it is not too low to still draw meaningful results even when broken down into subdivisions 10a and 10b. All things considered, size premia developed for deciles 10a and 10b are significant and can be used in cost of capital analysis. These size premia should greatly enhance the development of cost of capital analysis for very small companies.

Table 7-6
Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ,
Largest Company and Its Market Capitalization
September 30, 2006

Decile	Recent Number of Companies	Recent Decite Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
1Da	511	124,268,473	314,433	M & F Worldwide Corp.
10b	1,237	103,630,389	173,439	Great Lakes Bancorp Inc. New

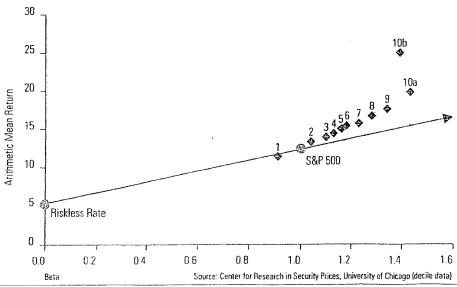
Note: These numbers may not aggregate to equal decile 10 figures. Source: Center for Research in Security Prices, University of Chicago

Table 7-7
Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926–2006

	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Ratet	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11.35%	6.13%	6.49%	-0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1.10	13.85%	8.64%	7.82%	0.81%
4	1.13	14.28%	9.07%	8.04%	1.03%
5	1.16	14 92%	9.71%	8.25%	1.45%
6	1.18	15.33%	10.11%	8.45%	1.67%
7	1.23	15.63%	10.42%	8.80%	1.62%
8	1.28	16.61%	11.39%	9.12%	2.28%
9	1 34	17.48%	12.27%	9 57%	2.70%
10a	1.43	19.74%	14.53%	10.17%	4.35%
10b-Smallest	1.39	24.78%	19.57%	9.89%	9.68%
Mid-Cap, 3-5	1 12	14.15%	8.94%	7.97%	0.97%
Low-Cap, 6-8	1.22	15.67%	10.46%	8.70%	1.76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9.68%	3.88%

<sup>\*</sup>Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926—December 2006.

Graph 7-3
Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split 1926-2006



<sup>\*\*</sup>Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 percent).

<sup>†</sup>Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.34 percent) minus the arithmetic mean income return component of 20-year government bonds (5.21 percent) from 1926–2006.

Table 7-8
Historical Number of Companies for NYSE/AMEX/NASDAQ Decile 10

Sept	Number of Companies		
1926	52*		
1930	72		
1940	78		
1950	100		
1960	109		
1970	865		
1980	685		
1990	1,814		
2000	1,927		
2005	1,746		
2006	1,744		

<sup>\*</sup>The fewest number of companies was 49 in March, 1926

Source: Center for Research in Security Prices, University of Chicago.

#### Alternative Methods of Calculating the Size Premia

The size premia estimation method presented above makes several assumptions with respect to the market benchmark and the measurement of beta. The impact of these assumptions can best be examined by looking at some alternatives. In this section we will examine the impact on the size premia of using a different market benchmark for estimating the equity risk premia and beta. We will also examine the effect on the size premia study of using sum beta or an annual beta.

#### Changing the Market Benchmark

In the original size premia study, the S&P 500 is used as the market benchmark in the calculation of the realized historical equity risk premium and of each size group's beta. The NYSE total value-weighted index is a common alternative market benchmark used to calculate beta. Table 7-9 uses this market benchmark in the calculation of beta. In order to isolate the size effect, we require an equity risk premium based on a large company stock benchmark. The NYSE deciles 1-2 large company index offers a mutually exclusive set of portfolios for the analysis of the smaller company groups: mid-cap deciles 3-5, low-cap deciles 6-8, and micro-cap deciles 9-10. The size premia analyses using these benchmarks are summarized in Table 7-9 and depicted graphically in Graph 7-4.

For the entire period analyzed, 1926-2006, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1-2 benchmark results in a value of 6.41, as opposed to 7.13 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

<sup>4</sup> Sum beta is the method of beta estimation described in Chapter 6 that was developed to better account for the lagged reaction of small stocks to market movements. The sum beta methodology was developed for the same reason that the size premia were developed; small company betas were too small to account for all of their excess returns.

### Standard & Poor's Ratings Services

# Standard & Poor's CORPORATE RATINGS CRITERIA

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### Utilities

The utilities rating methodology encompasses two basic components: business risk analysis and financial analysis. Evaluation of industry characteristics, the utility's position within that industry, its regulation, and its management provides the context for assessing a firm's financial condition.

Historical analysis is a tool for identifying strengths and weaknesses, and provides a starting point for evaluating financial condition. Business position assessment is the qualitative measure of a utility's fundamental creditworthiness. It focuses on the forces that will shape the utilities' future.

Utilities credit analysis	Tactors
Business risk	Financial risk
• Markets and service erea	Earnings protection
economy	<ul> <li>Capital structura</li> </ul>
Competitive position	<ul> <li>Cash flow adequacy</li> </ul>
Operations	Financial flexibility/capital
Regulation	attraction
<ul> <li>Management</li> </ul>	
• Fuel, power, and water	
supply	
Asset concentration	

The credit analysis of utilities is quickly evolving, as utilities are treated less as regulated monopolies and more as entities faced with a host of challengers in a competitive environment. Marketplace dynamics are supplanting the power of regulation, making it critically important to reduce costs and/or market new services in order to thwart competitors' inroads.

#### Markets and service area economy

Assessing service territory begins with the economic and demographic evaluation of the area in which the utility has its franchise. Strength of long-term demand for the product is examined from a macroeconomic perspective. This enables Standard & Poor's to evaluate the affordability of rates and the staying power of demand.

Standard & Poor's tries to discern any secular consumption trends and, more importantly, the reasons for them. Specific items examined include the size and growth rate of the market, strength of the franchise, historical and projected sales growth, income levels and trends in population, employment, and per capita income. A utility with a healthy economy and customer base—as illustrated by diverse employment opportunities, average or above-average wealth and income statistics, and low unemploy-

ment—will have a greater capacity to support its operations.

For electric and gas utilities, distribution by customer class is scrutinized to assess the depth and diversity of the utility's customer mix. For example, heavy industrial concentration is viewed cautiously, since a utility may have significant exposure to cyclical volatility. Alternatively, a large residential component yields a stable and more predictable revenue stream. The largest utility customers are identified to determine their importance to the bottom line and assess the risk of their loss and potential adverse effect on the utility's financial position. Credit concerns arise when individual customers represent more than 5% of revenues. The company or industry may play a significant role in the overall economic base of the service area. Moreover, large customers may turn to cogeneration or alternative power supplies to meet their energy needs, potentially leading to reduced cash flow for the utility (even in cases where a large customer pays discounted rates and is not a profitable account for the utility). Customer concentration is less significant for water and telecommunication utili-

#### Competitive position

As competitive pressures have intensified in the utilities industry, Standard & Poor's analysis has deepened to include a more thorough review of competitive position.

#### Electric utility competition

For electric utilities, competitive factors examined include: percentage of firm wholesale revenues that are most vulnerable to competition; industrial load concentration; exposure of key customers to alternative suppliers; commercial concentrations; rates for various customer classes; rate design and flexibility; production costs, both marginal and fixed; the regional capacity situation; and transmission constraints. A regional focus is evident, but high costs and rates relative to national averages are also of significant concern because of the potential for electricity substitutes over time.

Mounting competition in the electric utility industry derives from excess generating capacity, lower barriers to entering the electric generating business, and marginal costs that are below embedded costs. Standard & Poor's has already witnessed declining prices in wholesale markets, as de facto retail competition is already being seen in several parts of the country. Standard & Poor's believes that over the coming years more and more customers will want and demand lower prices. Initial concerns focus on the largest industrial loads, but other customer classes will be increasingly vulnerable. Competition will not necessar-

#### STANDARD'S POOR'S CORPORATE HATINGS CRITIERIA

ily be driven by legislation. Other pressures will arise from global competition and improving technologies, whether it be the declining cost of incremental generation or advances in transmission capacity or substitute energy sources like the fuel cell. It is impossible to say precisely when wide-open retail competition will occur; this will be evolutionary. However, significantly greater competition in retail markets is inevitable.

#### Gas utility competition

Similarly, gas utilities are analyzed with regard to their competitive standing in the three major areas of demand: residential, commercial, and industrial. Although regulated as holders of monopoly power, natural gas utilities have for some time been actively competing for energy market share with fuel oil, electricity, coal, solar, wood, etc. The long-term staying power of market demand for natural gas cannot be taken for granted. In fact, as the electric utility industry restructures and reduces costs, electric power will become more cost competitive and threaten certain gas markets. In addition, independent gas marketers have made greater inroads behind the city gate and are competing for large gas users. Moreover, the recent trend by state regulators to unbundle utility services is creating opportunities for outsiders to market niche products. Distributors still have the upper hand, but those who do not reduce and control costs, and thus rates, could find competition even more difficult.

Natural gas pipelines are judged to carry a somewhat higher business risk than distribution companies because they face competition in every one of their markets. To the extent a pipeline serves utilities versus industrial end users, its stability is greater. Over the next five years, pipeline competition will heat up since many service contracts with customers are expiring. Most distributor or end-use customers are looking to reduce pipeline costs and are working to improve their load factor to do so. Thus, pipelines will likely find it difficult to recontract all capacity in coming years. Being the pipeline of choice is a function of attractive transportation rates, diversity and quality of services provided, and capacity available in each particular market. In all cases though, periodic discounting of rates to retain customers will occur and put pressure on profitability.

#### Water utility competition

As the last true utility monopoly, water utilities face very little competition and there is currently no challenge to the continuation of franchise areas. The only exceptions have been cases where investor-owned water companies have been subject to condemnation and municipalization because of poor service or political motivations. In that regard, Standard & Poor's pays close attention to costs and rates in relation to neighboring utilities and national averages. (In contrast, the privatization of public water facilities has begun, albeit at a slower pace than anticipated. This is occurring mostly in the form of operating contracts and public/private partnerships, and not in asset transfers. This trend should continue as cities look for ways to bal-

ance their tight budgets.) Also, water utilities are not fully immune to the forces of competition; in a few instances wholesale customers can access more than one supplier.

#### Telephone competition

The Telecommunications Act of 1996 accelerates the continuing challenge to the local exchange companies' (LECs) century-old monopoly in the local loop. Competitive access providers (CAPs), both facilities-based and resellers, are aggressively pursuing customers, generally targeting metropolitan areas, and promising lower rates and better service.

Most long-distance calls are still originated and terminated on the local telephone company network. To complete such a call, the long-distance provider (including AT&T, MCI, Sprint and a host of smaller interexchange carriers or "IXCs") must pay the local telephone company a steep "access" fee to compensate the local phone company for the use of its local network. CAPs, in contrast, build or lease facilities that directly connect customers to their long-distance carrier, bypassing the local telephone company and avoiding access fees, and thereby can offer lower long-distance rates. But the LECs are not standing still; they are combating the loss of business to CAPs by lowering access fees, thereby reducing the economic incentive for a high usage long-distance customer to use a CAP. LECs are attempting to make up for the loss of revenues from lower access fees by increasing basic local service rates (or at least not lowering them), since basic service is far less subject to competition. LECs are improving operating efficiency and marketing high margin, value-added new services. Additionally, in the wake of the Telecommunications Act, LECs will capture at least some of the inter-LATA long-distance market. As a result of these initiatives, LECs continue to rebuild themselves-from the traditional utility monopoly to leaner, more marketing oriented organizations.

While LECs, and indeed all segments of the telecommunications sector, face increasing competition, there are favorable industry factors that tend to offset heightened business risk and auger for overall ratings stability for most LECs. Importantly, telecommunications is a declining-cost business. With increased deployment of fiber optics, the cost of transport has fallen dramatically and digital switching hardware and software have yielded more capable, trouble-free and cost-efficient networks. As a result, the cost of network maintenance has dropped sharply, as illustrated by the ratio of employees per 10,000 access lines, an oft cited measurement of efficiency. Ratios as low as 25 employees per 10,000 lines are being seen, down from the typical 40 or more employees per 10,000 ratio of only a few years ago.

In addition, networks are far more capable. They are increasingly digitally switched and able to accommodate high-speed communications. The infrastructure needed to accommodate switched broadband services will be built into telephone networks over the next few years. These advanced networks will enable telephone companies to look to a greater variety of high-margin, value-added serv-

#### STANDARD & POOR S CORPORATE RATINGS/GRITERIA

ices. In addition to those current services such as call waiting or caller ID, the delivery of hundreds of broadcast and interactive video channels will be possible. While these services offer the potential of new revenue streams, they will simultaneously present a formidable challenge. LECs will be entering the new (to them) arena of multimedia entertainment and will have to develop expertise in marketing and entertainment programming acumen; such skills stand in sharp contrast to LECs' traditional strengths in engineering and customer service.

#### **Operations**

Standard & Poor's focuses on the nature of operations from the perspective of cost, reliability, and quality of service. Here, emphasis is placed on those areas that require management attention in terms of time or money and which, if unresolved, may lead to political, regulatory, or competitive problems.

#### Operations of electric utilities

For electrics, the status of utility plant investment is reviewed with regard to generating plant availability and utilization, and also for compliance with existing and contemplated environmental and other regulatory standards. The record of plant outages, equivalent availability, load factors, heat rates, and capacity factors are examined. Also important is efficiency, as defined by total megawatt hour per employee and customers per employee. Transmission interconnections are evaluated in terms of the number of utilities to which the utility in question has access, the cost structures and available generating capacity of these other utilities, and the price paid for wholesale power.

Because of mounting competition and the substantial escalation in decommissioning estimates, significant weight is given to the operation of nuclear facilities. Nuclear plants are becoming more vulnerable to high production costs that make their rates uneconomic. Significant asset concentration may expose the utility to poor performance, unscheduled outages or premature shutdowns, and large deferrals or regulatory assets that may need to be written off for the utility to remain competitive. Also, nuclear facilities tend to represent significant portions of their operators' generating capability and assets. The loss of a productive nuclear unit from both power supply and rate base can interrupt the revenue stream and create substantial additional costs for repairs and improvements and replacement power. The ability to keep these stations running smoothly and economically directly influences the ability to meet electric demand, the stability of revenues and costs, and, by extension, the ability to maintain adequate creditworthiness. Thus, economic operation, safe operation, and long-term operation are examined in depth. Specifically, emphasis is placed on operation and maintenance costs, busbar costs, fuel costs, refueling outages, forced outages, plant statistics, NRC evaluations, the potential need for repairs, operating licenses, decommissioning estimates and amounts held in external trusts, spent fuel storage capacity, and management's nuclear experience. In essence, favorable nuclear operations offer significant opportunities but, if a nuclear unit runs poorly or not at all, the attendant risks can be great.

#### Operations of gas utilities

For gas pipeline and distribution companies, the degree of plant utilization, the physical condition of the mains and lines, adequacy of storage to meet seasonal needs, "lost and unaccounted for" gas levels, and per-unit nongas operating and construction costs are important factors. Efficiency statistics such as load factor, operating costs per customer, and operating income per employee are also evaluated in comparison to other utilities and the industry as a whole.

#### Operations of water utilities

As a group, water utilities are continually upgrading their physical plant to satisfy regulations and to develop additional supply. Over the next decade, water systems will increasingly face the task of maintaining compliance, as drinking water regulations change and infrastructure ages. Given that the Safe Drinking Water Act was authorized in 1974, the first generation of treatment plants built to conform with these rules are almost 20 years old. Additionally, because the focus during this period was on satisfying environmental standards, deferred maintenance of distribution systems has been common, especially in older urban areas. The increasing cost of supplying treated water argues against the high level of unaccounted for water witnessed in the industry. Consequently, Standard & Poor's anticipates capital plans for rebuilding distribution lines and major renewal and replacement efforts aimed at treatment plants.

#### Operations of telephone companies

For telephone companies, cost-of-service analysis focuses on plant capability and measures of efficiency and quality of service. Plant capability is ascertained by looking at such parameters as percentage of digitally switched lines; fiber optic deployment, in particular in those portions of the plant key to network survival; and the degree of broadband capacity fiber and coaxial deployment and broadband switching capacity. Efficiency measures include operating margins, the ratio of employees per 10,000 access lines, and the extent of network and operations consolidation. Quality of service encompasses examination of quantitative measures, such as trouble reports and repeat service calls, as well as an assessment of qualitative factors, that may include service quality goals mandated by regulators.

#### Regulation

Regulatory rate-setting actions are reviewed on a caseby-case basis with regard to the potential effect on creditworthiness. Regulators' authorizing high rates of return is of little value unless the returns are earnable. Furthermore, allowing high returns based on noncash items does not benefit bondholders. Also, to be viewed positively, regulatory treatment should allow consistent performance from

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period to period, given the importance of financial stability as a rating consideration.

The utility group meets frequently with commission and staff members, both at Standard & Poor's offices and at commission headquarters, demonstrating the importance Standard & Poor's places on the regulatory arena for credit quality evaluation. Input from these meetings and from review of rate orders and their impact weigh heavily in Standard & Poor's analysis.

Standard & Poor's does not "rate" regulatory commissions. State commissions typically regulate a number of diverse industries, and regulatory approaches to different types of companies often differ within a single regulatory jurisdiction. This makes it all but impossible to develop inclusive "ratings" for regulators.

Standard & Poor's evaluation of regulation also encompasses the administrative, judicial, and legislative processes involved in state and federal regulation. These can affect rate-setting activities and other aspects of the business, such as competitive entry, environmental and safety rules, facility siting, and securities sales.

As the utility industry faces an increasingly deregulated environment, alternatives to traditional rate-making are becoming more critical to the ability of utilities to effectively compete, maintain earnings power, and sustain creditor protection. Thus, Standard & Poor's focuses on whether regulators, both state and federal, will help or hinder utilities as they are exposed to greater competition. There is much that regulators can do, from allocating costs to more captive customers to allowing pricing flexibility—and sometimes just stepping out of the way.

Under traditional rate-making, rates and earnings are tied to the amount of invested capital and the cost of capital. This can sometimes reward companies more for justifying costs than for containing them. Moreover, most current regulatory policies do not permit utilities to be flexible when responding to competitive pressures of a deregulated market. Lack of flexible tariffs for electric utilities may lure large customers to wheel cheaper power from other sources.

In general, a regulatory jurisdiction is viewed favorably if it permits earning a return based on the ability to sustain rates at competitive levels. In addition to performance-based rewards or penalties, flexible plans could include market-based rates, price caps, index-based prices, and rates premised on the value of customer service. Such rates more closely mirror the competitive environment that utilities are confronting.

#### Electric industry regulation

The ability to enter into long-term arrangements at negotiated rates without having to seek regulatory approval for each contract is also important in the electric industry. (While contracting at reduced rates constrains financial performance, it lessens the potential adverse impact in the event of retail wheeling. Since revenue losses associated with this strategy are not likely to be recovered from ratepayers, utilities must control costs well enough to remain competitive if they are to sustain current levels of bond-holder protection.)

#### Natural gas industry regulation

In the gas industry, too, several state commission policies weigh heavily in the evaluation of regulatory support. Examples include stabilization mechanisms to adjust revenues for changes in weather or the economy, rate and service unbundling decisions, revenue and cost allocation between sales and transportation customers, flexible industrial rates, and the general supportiveness of construction costs and gas purchases.

#### Water industry regulation

In all water utility activities, federal and state environmental regulations continue to play a critical role. The legislative timetable to effect the 1986 amendments to the Safe Drinking Water Act of 1974 was quite aggressive. But environmental standards-setting has actually slowed over the past couple of years due largely to increasing sentiment that the stringent, costly standards have not been justified on the basis of public health. A moratorium on the promulgation of significant new environmental rules is anticipated.

#### Telecommunications industry regulation

Despite the advances in telecommunications deregulation, analysis of regulation of telephone operators will continue to be a key rating determinant for the foreseeable future. The method of regulation may be either classic rate-based rate of return or some form of price cap mechanism. The most important factor is to assess whether the regulatory framework—no matter which type—provides sufficient financial incentive to encourage the rated company to maintain its quality of service and to upgrade its plant to accommodate new services while facing increasing competition from wireless operators and cable television companies.

Where regulators do still set tariffs based on an authorized return. Standard & Poor's strives to explore with regulators their view of the rate-of-return components that can materially impact reported versus regulatory earnings. Specifically these include the allowable base upon which the authorized return can be earned, allowable expenses, and the authorized return. Since regulatory oversight runs the gamut from strict, adversarial relationships with the regulated operating companies to highly supportive postures, Standard & Poor's probes beyond the apparent regulatory environment to ascertain the actual impact of regulation on the rated company.

#### Management

Evaluating the management of a utility is of paramount importance to the analytical process since management's abilities and decisions affect all areas of a company's operations. While regulation, the economy, and other outside factors can influence results, it is ultimately the quality of management that determines the success of a company.

#### STANDARD & POOR'S CORPORATE HATINGS CRITERIA

With emerging competition, utility management will be more closely scrutinized by Standard & Poor's and will become an increasingly critical component of the credit evaluation. Management strategies can be the key determinant in differentiating utilities and in establishing where companies lie on the business position spectrum. It is imperative that managements be adaptable, aggressive, and proactive if their utilities are to be viable in the future; this is especially important for utilities that are currently uncompetitive.

The assessment of management is accomplished through meetings, conversations, and reviews of company plans. It is based on such factors as tenure, industry experience, grasp of industry issues, knowledge of customers and their needs, knowledge of competitors, accounting and financing practices, and commitment to credit quality. Management's ability and willingness to develop workable strategies to address their systems' needs, to deal with the competitive pressures of free market, to execute reasonable and effective long-term plans, and to be proactive in leading their utilities into the future are assessed. Management quality is also indicated by thoughtful balancing of public and private priorities, a record of credibility, and effective communication with the public, regulatory bodies, and the financial community. Boards of directors will receive ever more attention with respect to their role in setting appropriate management incentives.

With competition the watchword, Standard & Poor's also focuses on management's efforts to enhance financial condition. Management can bolster bondholder protection by taking any number of discretionary actions, such as selling common equity, lowering the common dividend payout, and paying down debt. Also important for the electric industry will be creativity in entering into strategic alliances and working partnerships that improve efficiency, such as central dispatching for a number of utilities or locking up at-risk customers through long-term contracts or expanded flexible pricing agreements. Proactive management teams will also seek alternatives to traditional rate-base, rate-of-return rate-making, move to adopt higher depreciation rates for generating facilities, segment customers by individual market preferences, and attempt to create superior service organizations.

In general, management's ability to respond to mounting competition and changes in the utility industry in a swift and appropriate manner will be necessary to maintain credit health.

#### Fuel, power, and water supply

Assessment of present and prospective fuel and power supply is critical to every electric utility analysis, while gauging the long-term natural gas supply position for gas pipeline and distribution companies and the water resources of a water utility is equally important. There is no similar analytical category for telephone utilities.

#### Electric utilities

For electric utilities emphasis is placed on generating

reserve margins, fuel mix, fuel contract terms, demandside management techniques, and purchased power arrangements. The adequacy of generating margins is examined nationally, regionally, and for each individual company. However, the reserve margin picture is muddied by the imprecise nature of peak-load growth forecasting, and also supply uncertainty relating to such things as Canadian capacity availability and potential plant shutdowns due to age, new NRC rules, acid rain remedies, fuel shortages, problems associated with nontraditional technologies, and so forth. Even apparently ample reserves may not be what they seem. Moreover, the quality of capacity is just as important as the size of reserves. Companies' reserve requirements differ, depending upon individual operating characteristics.

Fuel diversity provides flexibility in a changing environment. Supply disruptions and price hikes can raise rates and ignite political and regulatory pressures that ultimately lead to erosion in financial performance. Thus, the ability to alter generating sources and take advantage of lower cost fuels is viewed favorably.

Dependence on any single fuel means exposure to that fuel's problems: electric utilities that rely on oil or gas face the potential for shortages and rapid price increases; utilities that own nuclear generating facilities face escalating costs for decommissioning; and coal-fired capacity entails environmental problems stemming from concerns over acid rain and the "greenhouse effect."

Buying power from neighboring utilities, qualifying facility projects, or independent power producers may be the best choice for a utility that faces increasing electricity demand. There has been a growing reliance on purchased power arrangements as an alternative to new plant construction. This can be an important advantage, since the purchasing utility avoids potential construction cost overruns as well as risking substantial capital. Also, utilities can avoid the financial risks typical of a multiyear construction program that are caused by regulatory lag and prudence reviews. Furthermore, purchased power may enhance supply flexibility, fuel resource diversity, and maximize load factors. Utilities that plan to meet demand projections with a portfolio of supply-side options also may be better able to adapt to future growth uncertainties. Notwithstanding the benefits of purchasing, such a strategy has risks associated with it. By entering into a firm long-term purchased power contract that contains a fixed-cost component, utilities can incur substantial market, operating, regulatory, and financial risks. Moreover, regulatory treatment of purchased power removes any upside potential that might help offset the risks. Utilities are not compensated through incentive rate-making; rather, purchased power is recovered dollar-for-dollar as an operating ex-

To analyze the financial impact of purchased power, Standard & Poor's first calculates the net present value of future annual capacity payments (discounted at 10%). This represents a potential debt equivalent—the off-balance-sheet obligation that a utility incurs when it enters into a long-term purchased power contract. However, Standard

#### STANDARD & POOR'S CORPORATE RATINGS CRITERIA

& Poor's adds to the utility's balance sheet only a portion of this amount, recognizing that such a contractual arrangement is not entirely the equivalent of debt. What percentage is added is a function of Standard & Poor's qualitative analysis of the specific contract and the extent to which market, operating, and regulatory risks are borne by the utility (the risk factor). For unconditional, take-orpay contracts, the risk factor range is from 40%-80%, with the average hovering around 60%. A lower risk factor is typically assigned for system purchases from coal-fired utilities and a higher risk factor is usually designated for unit-specific nuclear purchases. The range for take-and-pay performance obligations is between 10%-50%.

#### Gas utilities

For gas distribution utilities, long-term supply adequacy obviously is critical, but the supply role has become even more important in credit analysis since the Federal Energy Regulatory Commission's Order 636 eliminated the interstate pipeline merchant business. This thrust gas supply responsibilities squarely on local gas distributors. Standard & Poor's has always believed distributor management has the expertise and wherewithal to perform the job well, but the risks are significant since gas costs are such a large percentage of total utility costs. In that regard, it is important for utilities to get preapprovals of supply plans by state regulators or at least keep the staff and commissioners well informed. To minimize risks, a well-run program would diversify gas sources among different producers or marketers, different gas basins in the U.S. and Canada, and different pipeline routes. Also, purchase contracts should be firm, with minimal take-or-pay provisions, and have prices tied to an industry index. A modest percentage of fixed-price gas is not unreasonable. Contracts, whether of gas purchases or pipeline capacity, should be intermediate term. Staggering contract expirations (preferably annually) provides an opportunity to be an active market player. A modest degree of reliance on spot purchases provides flexibility, as does the use of market-based storage. Gas storage and on-property gas resources such as liquefied natural gas or propane air are effective peak-day and peakseason supply management tools.

Since pipeline companies no longer buy and sell natural gas and are just common carriers, connections with varied reserve basins and many wells within those basins are of great importance. Diversity of sources helps offset the risks arising from the natural production declines eventually experienced by all reserve basins and individual wells. Moreover, such diversity can enhance a pipeline's attractiveness as a transporter of natural gas to distributors and end users seeking to buy the most economical gas available for their needs.

#### Water utilities

Nearly all water systems throughout the U.S. have ample long-term water supplies. Yet to gain comfort, Standard & Poor's assesses the production capability of treatment plants and the ability to pump water from underground aquifers in relation to the usage demands from consumers.

Having adequate treated water storage facilities has become important in recent years and has helped many systems meet demands during peak summer periods. Of interest is whether the resources are owned by the utility or purchased from other utilities or local authorities. Owning properties with water rights provides more supply security. This is especially so in states like California where water allocations are being reduced, particularly since recent droughts and environmental issues have created alarm. Since the primary cost for water companies is treatment, it makes little difference whether raw water is owned or bought. In fact, compliance with federal and state water regulations is very high, and the overall cost to deliver treated water to consumers remains relatively affordable.

## Asset concentration in the electric utility industry

In the electric industry, Standard & Poor's follows the operations of major generating facilities to assess if they are well managed or troubled. Significant dependence on one generating facility or a large financial investment in a single asset suggests high risk. The size or magnitude of a particular asset relative to total generation, net plant in service, and common equity is evaluated. Where substantial asset concentration exists, the financial profile of a company may experience wide swings depending on the asset's performance. Heavy asset concentration is most prevalent among utilities with costly nuclear units.

#### Earnings protection

In this category, pretax cash income coverage of all interest charges is the primary ratio. For this calculation, allowance for funds used during construction (AFUDC) is removed from income and interest expense. AFUDC and other such noncash items do not provide any protection for bondholders. To identify total interest expense, the analyst reclassifies certain operating expenses. The interest component of various off-balance-sheet obligations, such as leases and some purchased-power contracts, is included in interest expense. This provides the most direct indication of a utility's ability to service its debt burden.

While considerable emphasis in assessing credit protection is placed on coverage ratios, this measure does not provide the entire earnings protection picture. Also important are a company's earned returns on both equity and capital, measures that highlight a firm's earnings performance. Consideration is given to the interaction of embedded costs, financial leverage, and pretax return on capital.

#### Capital structure

Analyzing debt leverage goes beyond the balance sheet and covers quast-debt items and elements of hidden financial leverage. Noncapitalized leases (including sale/lease-back obligations), debt guarantees, receivables financing, and purchased-power contracts are all considered debt equivalents and are reflected as debt in calculating capital

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structure ratios. By making debt level adjustments, the analyst can compare the degree of leverage used by each utility company.

Furthermore, assets are examined to identify undervalued or overvalued items. Assets of questionable value are discounted to more accurately evaluate asset protection.

Some firms use short-term debt as a permanent piece of their capital structure. Short-term debt also is considered part of permanent capital when it is used as a bridge to permanent financing. Seasonal, self-liquidating debt is excluded from the permanent debt amount, but this situation is rare—with the exception of certain gas utilities. Given the long life of almost all utility assets, short-term debt may expose these companies to interest-rate volatility, remarketing risk, bank line backup risk, and regulatory exposure that cannot be readily offset. The lower cost of shorter-term obligations (assuming a positively sloped yield curve) is a positive factor that partially mitigates the risk of interest-rate variability. As a rule of thumb, a level of short-term debt that exceeds 10% of total capital is cause for concern.

Similarly, if floating-rate debt and preferred stock constitute over one-third of total debt plus preferred stock, this level is viewed as unusually high and may be cause for concern. It might also indicate that management is aggressive in its financial policies.

A layer of preferred stock in the capital structure is usually viewed as equity-since dividends are discretionary and the subordinated claim on assets provides a cushion for providers of debt capital. A preferred component of up to 10% is typically viewed as a permanent wedge in the capital structure of utilities. However, as rate-of-return regulation is phased out, preferred stock may be viewed by utilities—as many industrial firms would—as a temporary option for companies that are not current taxpayers that do not benefit from the tax deductibility of interest. Even now, floating-rate preferred and money market perpetual preferred are problematic; a rise in the rate due to deteriorating credit quality tends to induce a company to take out such preferred stock with debt. Structures that convey tax deductibility to preferred stock have become very popular and do generally afford such financings with equity treatment.

#### Cash flow adequacy

Cash flow adequacy relates to a company's ability to generate funds internally relative to its needs. It is a basic component of credit analysis because it takes cash to pay expenses, fund capital spending, pay dividends, and make interest and principal payments. Since both common and preferred dividend payments are important to maintain capital market access, Standard & Poor's looks at cash flow measures both before and after dividends are paid.

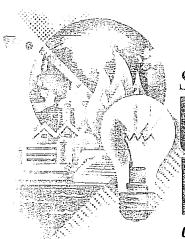
To determine cash flow adequacy, several quantitative relationships are examined. Emphasis is placed on cash flow relative to debt, debt service requirements, and capital spending. Cash flow adequacy is evaluated with respect to a firm's ability to meet all fixed charges, including capacity payments under purchased-power contracts. Despite the conditional nature of some contracts, the purchaser is obligated to pay a minimum capacity charge. The ratio used is funds from operations plus interest and capacity payments divided by interest plus capacity payments.

#### Financial flexibility/capital attraction

Financing flexibility incorporates a utility's financing needs, plans, and alternatives, as well as its flexibility to accomplish its financing program under stress without damaging creditworthiness. External funding capability complements internal cash flow. Especially since utilities are so capital intensive, a firm's ability to tap capital markets on an ongoing basis must be considered. Debt capacity reflects all the earlier elements: earnings protection, debt leverage, and cash flow adequacy. Market access at reasonable rates is restricted if a reasonable capital structure is not maintained and the company's financial prospects dim. The analyst also reviews indenture restrictions and the impact of additional debt on covenant tests.

Standard & Poor's assesses a company's capacity and willingness to issue common equity. This is affected by various factors, including the market-to-book ratio, dividend policy, and any regulatory restrictions regarding the composition of the capital structure.





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# New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines

## New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business pro-

file scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest cov-

Chart 1
Distribution of Business Profile Scores

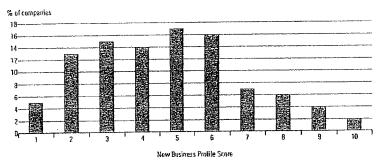
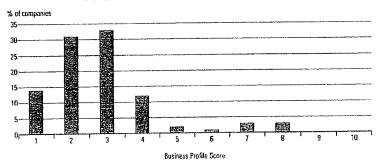


Chart 2
Transmission and Distribution—Water, Gas, and Electric



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erage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

#### Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk—particularly regarding management, strategy, and degree of competitive market exposure—has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business pro-

Chan 3
Transmission Only—Electric, Gas, and Other

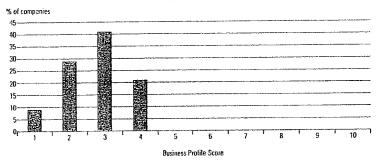
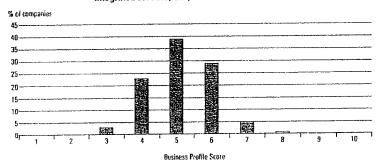


Chart 4
Integrated Electric, Gas, and Combination Utilities





file scores, as of June 2, are shown in Chart 1. The overall median business profile score is now '5'

Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include

- ## Effectiveness of liability and liquidity management,
- ☐ Analysis of internal funding sources;

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- Beturn on invested capital;
- The execution record of stated business strategies,
- Accuracy of projected performance versus actual results, as well as the trend,
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are

- m Transmission and distribution—Water, gas, and electric,
- Transmission only—Electric, gas, and other,
- s Integrated electric, gas, and combination utilities,
- B Diversified energy and diversified nonenergy, and
- B Energy merchant/power developer/trading and marketing

The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher

Chart 5 Diversified Energy and Diversified Non-Energy

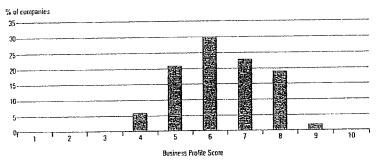
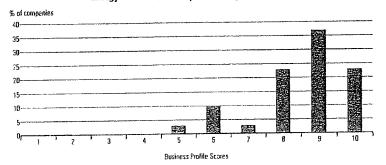


Chart 6 Energy Merchant/Developers/Trading and Marketing





See pages 16 to 19 for the company ranking list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength

#### **Business Profile Score Methodology**

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business pro-

file scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries, or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the

Table 1

Revised Financ	ial Guidel	ines			***************************************			
Funds from operatio	ns/interest c	overage (x)						
Business Profile		AA		η.	В	BB		BB
1	3	25	25	1.5	15	1		
2	4	3	3	2	2	1		
3	45	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	42	4.2	3.5	35	2.5	2.5	1.5
5	55	45	45	3.8	3.8	28	28	1.8
6	6	52	52	42	4.2	3	3	2
7	8	6.5	6.5	45	4.5	32	32	2.2
8	10	75	75	5.5	55	3.5	35	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3
Funds from operation	n/total debt (	%}						
Business Profile		<b>AA</b>	1	4	В	BB		BB
1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25
Total debt/total capi								
Business Profile		<b>AA</b>	P			BB		BB
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	<b>6</b> 5	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	5 <b>5</b>	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

#### Feature Article

dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the singlemost important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for deter-

mining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case.

Ronald M. Barone
New York (1) 212-438-7662
Richard W. Cortright, Jr.
New York (1) 212-438-7665
Suzanne G. Smith
New York (1) 212-438-2106
John W. Whittock
New York (1) 212-438-7678
Andrew Watt
New York (1) 212-438-7868
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Page 6 June 7, 2004

## PROXY GROUP OF EIGHT AUS UTILITY REPORTS WATER COMPANIES CAPITALIZATION AND FINANCIAL STATISTICS (1) 2002 - 2006, INCLUSIVE

	2006	2005 (MILLIC	2004 ONS OF DOLLARS	2003	<u>2002</u>	
CAPITALIZATION STATISTICS		(MILLIO	3110 Ot 0000 1110)	'		
AMOUNT OF CAPITAL EMPLOYED TOTAL PERMANENT CAPITAL SHORT-TERM DEBT TOTAL CAPITAL EMPLOYED	\$532.756 <u>\$22.725</u> \$555,480	\$478.132 \$23.094 \$501.226	\$446.177 \$19.724 \$465.901	\$400.276 \$25.263 \$425.539	\$348.252 <u>\$28.644</u> \$376.896	
INDICATED AVERAGE CAPITAL COST RATES (2) TOTAL DEBT PREFERRED STOCK CAPITAL STRUCTURE RATIOS	6.32 % 5.12	6.15 % 5.05	6,18 % 4.79	6.30 % 4.11	6.54 % 5.52	5 YEAR AVERAGE
BASED ON TOTAL PERMANENT CAPITAL: LONG-TERM DEBT PREFERRED STOCK COMMON EQUITY TOTAL	48.72 % 0.32 <u>50.96</u> 100.00 %	50.93 % 0.36 <u>48.71</u> 100.00 %	50.26 % 0.39 <u>49.35</u> 100.00 %	50.81 % 0.46 48.73 100.00 %	50.65 % 0.51 <u>48.84</u> 100.00 %	50.27 % 0.41 49.32 100.00 %
BASED ON TOTAL CAPITAL: TOTAL DEBT, INCLUDING SHORT-TERM PREFERRED STOCK COMMON EQUITY TOTAL	50.20 % 0.32 49.48 100.00 %	52.45 % 0.35 <u>47.20</u> 100.00 %	52.01 % 0.38 47.61 100.00 %	53.82 % 0.43 45,75 100.00 %	53.62 % 0.47 45.91 100.00 %	52.42 % 0.39 <u>47.19</u> 100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED  EARNINGS / PRICE RATIO  MARKET / AVERAGE BOOK RATIO  DIVIDEND YIELD  DIVIDEND PAYOUT RATIO	3.85 % 268.90 2.60 71.58	4.13 % 250.20 2.86 70.53	4.57 % 227.38 3.35 70.70	4,34 % 227.15 3.28 80.68	4.93 % 220.24 3.53 72.48	4,36 % 238.77 3.12 73,19
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	10,13 %	9.99 %	10.13 %	9.59 %	10.56 %	10.08 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	4.05 X	4.02 X	4.22 X	3.81 X	3.61 X	3.94 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	18.91 %	18.16 %	19.60 %	16.97 %	16.43 %	18.01 %
TOTAL DEBT / TOTAL CAPITAL	50.20 %	52.45 %	52.01 %	53.82 %	53.62 %	52.42 %

See Page 2 for notes.

Exhibit No. Schedule PMA-3 Page 2 of 3

### Proxy Group of Eight AUS Utility Reports Water Companies Capitalization and Financial Statistics 2002-2006, Inclusive

### Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual total debt interest or preferred stock dividends booked to average of beginning and ending total debt or preferred stock reported to be outstanding.
- (3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges
- (4) Funds from operations (as defined in Note 3) as a percentage of total debt.

### Selection Criteria.

The basis of selection was to include those water companies: 1) which are included in the Water Company Group of AUS Utility Reports (July 2007), 2) which have Value Line (Standard Edition) five-year EPS growth rate projections or Reuters consensus five-year EPS growth rate projections; and 3) which have more than 70% of their 2006 operating revenues derived from water operations.

The following eight water companies met the above criteria:

American States Water Co. Agua America, Inc. Artesian Resources, Inc. California Water Service Group Connecticut Water Service inc. Middlesex Water Co. SJW Corporation York Water Co.

Standard & Poor's Compustat Services, Inc., PC Plus / Research Source of Information:

Insight Database

EDGAR Online's I-Metrics Database

Company Annual Forms 10K

### Capital Structure Based upon Total Permanent Capital for the Proxy Group of Eight AUS Utility Reports Water Companies for the Years 2002 through 2006

						5 YEAR
	2006	<u>2005</u>	2004	2003	2002	AVERAGE
American States Water Co.						
Long-Term Debt	48 61 %	50.46 %	47.75 %	52 05 %	53 40 %	50 45 %
Preferred Stock	0 00	0.00	0.00	0.00	0.00	0.00
Common Equity	<u>51.39</u>	49.54	52.25	<u>47.95</u>	46.60	<u>49.55</u>
Total Capital	100.00 %	<u>100.00</u> %	100.00 %	100.00 %	100.00 %	100.00 %
Aqua America, Inc.						
Long-Term Debt	51.56 %	52 61 %	52.72 %	52 76 %	55.58 <b>%</b>	53.05 %
Preferred Stock	0.09	0.09	0.08	0.07	0 06	0 08
Common Equity	48.35	<u>47.30</u>	<u>47.20</u>	47.17	44.36	46.88
Total Capital	100.00 %	100.00 %	<u>100.00</u> %	100.00 %	100.00 %	<u>100.00</u> %
Artesian Resources Corp.						
Long-Term Debt	59 92 %	61 58 %	60 30 %	60.47 %	55 62 %	59 58 %
Preferred Stock	0 00	0.00	0 00	0 07	0.17	0.05
Common Equity	40.08	38.42	39.70	<u>39.46</u>	44.21	40.37
Total Capital	100.00 %	100.00 %	<u>100.00</u> %	100.00 %	100.00 %	<u>100.00</u> %
California Water Service Group						10.00.84
Long-Term Debt	44 58 %	48.07 %	48.66 %	52.41 %	55 36 %	49 82 %
Preferred Stock	0 50	0 61	0.61	0 67	0.77	0 63
Common Equity	54.92	51.32	50.73	46.92	43.87	<u>49.55</u> 100.00 %
Total Capital	100.00 %	<u>100.00</u> %	<u>100.00</u> %	100.00 %	100.00 %	100.00 %
Connecticut Water Service, Inc.		4F. C.F. W	40.03.6/	42 58 0/	44.57 %	44.23 %
Long-Term Debt	44.44 %	45.65 %	42 93 % 0 54	43 58 % 0 57	0.58	0.52
Preferred Stock	0.44	0.49		55.85	54.85	55.24
Common Equity	55.12	53.86	<u>56.53</u> 100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	100.00 %	100.00 %	100,00 /8	100.00 /6	100.00 %
Middlesex Water Company	40.00 B/	E	53 99 %	54 05 %	52.24 %	53.19 %
Long-Term Debt	49.98 % 1.49	55 68 % 1.70	1.88	2 23	241	1.94
Preferred Stock		42.62	44.13	43.72	45.35	44.87
Common Equity	48.53	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	100.00 76	100.00 70	100.00	100.00	100.00 %
SJW Corp.						10.10.00
Long-Term Debt	4183 %	42.63 %	43 77 %	45 64 %	41.72 %	43.12 %
Preferred Stock	0 01	0.02	0.04	0.05	0.07	0.04
Common Equity	58.16	<u>57.35</u>	<u>56.19</u>	54.31	58.21	56.84
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
York Water Co.						40.75.00
Long-Term Debt	48.82 %	50.71 %	51.94 %	45.53 %	46 76 %	48.75 %
Preferred Stock	0.00	0.00	0 00	0 00	0.00	0 00
Common Equity	51.18	49.29	48.06	54.47	53.24	<u>51.25</u> 100.00 %
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	<u>100.00</u> %	100.00 %
Proxy Group of Eight AUS						
Utility Reports Water Companies						
Long-Term Debt	48 72 %	50.93 %	50 26 %	50 81 %	50.65 %	50.27 %
Preferred Stock	0 32	0.36	0 39	0.46	0.51	0 4 1
Common Equity	50.96	48.71	49.35	48,73	48.84	49.32
Total Capital	100.00 %	100.00 %	100.00 %	100,00 %	100.00 %	100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base Company Annual Forms 10-K

## PROXY GROUP OF FOUR VALUE (STANDARD EDITION) LINE WATER COMPANIES CAPITALIZATION AND FINANCIAL STATISTICS (1) 2002 - 2006, INCLUSIVE

	2006	2005 (MILLIO	<u>2004</u> ONS OF DOLLARS	<u>2003</u>	2002	
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED TOTAL PERMANENT CAPITAL SHORT-TERM DEBT TOTAL CAPITAL EMPLOYED	\$860.957 \$37.788 \$598.745	\$773.683 \$41.376 \$815.059	\$719.252 \$32.529 \$751.781	\$628.903 \$39.728 \$668.532	\$541,882 \$46,623 \$588,505	
INDICATED AVERAGE CAPITAL COST RATES (2) TOTAL DEBT PREFERRED STOCK	6.65 % 4.81	6.39 % 4.27	5.26 % 3.38	6,36 % 2.63	6,39 % 3,73	<u>5 YEAR</u> AVERAGE
CAPITAL STRUCTURE RATIOS BASED ON TOTAL PERMANENT CAPITAL: LONG-TERM DEBT PREFERRED STOCK COMMON EQUITY TOTAL	47.15 % 0.19 <u>52.66</u> 100.00 %	49,45 % 0,22 <u>50,33</u> 100,00 %	49.42 % 0.24 <u>50.34</u> 100.00 %	51.43 % 0.40 <u>48.17</u> 100.00 %	55.35 % 0.39 <u>44.26</u> 100.00 %	50.56 % 0.29 49.15 100.00 %
BASED ON TOTAL CAPITAL. TOTAL DEBT, INCLUDING SHORT-TERM PREFERRED STOCK COMMON EQUITY TOTAL	46.56 % 0.19 <u>51.25</u> 100.00 %	50.93 % 0.22 48.85 100.00 %	51.13 % 0.25 48.62 100.00 %	53.69 % 0.39 45.92 100.00 %	58.05 % 0.38 41.57 100.00 %	52.47 % 0.29 47.24 100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED  EARNINGS / PRICE RATIO  MARKET / AVERAGE BOOK RATIO  DIVIDEND YIELD  DIVIDEND PAYOUT RATIO	3.15 % 262.50 2.15 67.47	3.86 % 248.19 2.42 61.18	3.88 % 222.69 2.79 71.81	4.12 % 220.49 2.91 74.09	4.96 % 223.08 3.10 61.40	4.00 % 235,39 2.67 67.19
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	8.15 %	9,19 %	8.38 %	9.19 %	10.91 %	9.16 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	3.94 X	4,16 X	4.40 X	3.81 X	3.67 X	4.00 X
FUNDS FROM OPERATIONS ( TOTAL DEBT (4)	19.05 %	19.61 %	20.38 %	17.79 %	15.81 %	18.53 %
TOTAL DEBT / TOTAL CAPITAL	48.56 %	50.93 %	51.13 %	53.69 %	58.05 %	52.47 %

See Page 2 for notes.

Exhibit No. \_\_\_\_ Schedule PMA-4 Page 2 of 3

## Proxy Group of Four Value Line (Standard Edition) Water Companies Capitalization and Financial Statistics 2002-2006, Inclusive

### Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual total debt interest or preferred stock dividends booked to average of beginning and ending total debt or preferred stock reported to be outstanding.
- (3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges.
- (4) Funds from operations (as defined in Note 3) as a percentage of total debt.

### Selection Criteria:

The basis of selection was to include those water companies: 1) which are included in the Value Line Investment Survey (Standard Edition).

The following four water companies met the above criteria:

American States Water Co. Aqua America, Inc. California Water Service Group Southwest Water Company

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database

EDGAR Online's I-Metrics Database Company Annual Forms 10K

## Capital Structure Based upon Permanent Total Capital for the Proxy Group of Four Value Line (Standard Edition) Water Companies for the Years 2002 through 2006

	2006	2005	2004	2003	2002	5 YEAR <u>AVERAGE</u>
American States Water Co.						
Long-Term Debt	48.61 %	50.46 %	47 75 %	52.05 %	53 40 %	50 45 %
Preferred Stock	0 00	0.00	0.00	0.00	0.00	0 00
Common Equity	51.39	49.54	52.25	47.95	46.60	49.55
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Aqua America, Inc.						
Long-Term Debt	51 56 %	52 61 %	52.72 %	52. <b>76 %</b>	55 58 %	53.05 %
Preferred Stock	0.09	0.09	0.08	0 07	0.06	0.08
Common Equity	48.35	47.30	<u>47.20</u>	47.17	44.36	46.88
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
California Water Service Group						
Long-Term Debt	44 58 %	48.07 %	48 66 %	52.41 %	55.36 %	49 82 %
Preferred Stock	0.50	0.61	0.61	0.67	0 77	0 63
Common Equity	54.92	51.32	50.73	46.92	43.87	49,55
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Southwest Water Company						
Long-Term Debt	43.85 %	46 67 %	48 53 %	48 50 %	57.07 %	48 92 %
Preferred Stock	0.15	0.17	0 28	0 85	0.74	0 44
Common Equity	56.00	53.16	<u>51.19</u>	<u>50.65</u>	42.19	<u>50.64</u>
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
D O IF Whatia						
Proxy Group of Four Value Line						
(Std. Ed.) Water Companies	47 15 %	49.45 %	49.42 %	51 43 %	55.35 %	50 56 %
Long-Term Debt	0.19	0.22	0 24	0 40	0.39	0 29
Preferred Stock	52.66	50.33	50.34	48.17	44.26	49.15
Common Equity	100,00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	100,00 %	100,00 /6	100.00	100.00 /6	700.00	

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base

### Southland Utilities, Inc. Hypothetical Example of the Inadequacy of A DCF Return Rate Related to Book Value When Market Value is Greater / Less than Book Value

3

Line No.	_	Mar	ket Value	N	ook Value with Market to Book Ratio of 180%	N	ook Value with larket to Book Ratio of 80%
1.	Per Share	\$	24.00	\$	13.33	\$	30.00
2.	DCF Cost Rate (1)		10.00%		10.00%		10.00%
3.	Return in Dollars	\$	2.400	\$	1.333	\$	3.000
4	Dividends (2)	\$	0.840	\$	0.840	. \$	0.840
5.	Growth in Dollars	\$	1.560	\$	0.493	\$	2.160
6.	Return on Market Value		10.00%		5.55% (3)		12 50% (4)
7.	Rate of Growth on Market Value		6.50% (5)		2.05% (6)		9.00% (7)

- Notes: (1) Comprised of 3.5% dividend yield and 6.5% growth.
  - (2) \$24 00 \* 3.5% yield = \$0.840.
  - (3) \$1.333 / \$24.00 market value = 5.55%.
  - (4) \$3 000 / \$24.00 market value = 12.50%.
  - (5) Expected rate of growth per market based DCF model.
  - (6) Actual rate of growth when DCF cost rate is applied to book value (\$1 333 possible earnings \$0 840 dividends = \$0.493 for growth / \$24.00 market value = 2.05%).
  - (7) Actual rate of growth when DCF cost rate is applied to book value (\$3.000 possible earnings \$0.840 dividends = \$2.160 for growth / \$24.00 market value = 9.00%).

## Southland Utilities, Inc. Indicated Common Equity Cost Rate Through Use of the Single Stage Discounted Cash Flow Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies

Based upon Historical and Projected Growth in DPS, EPS, and BR+SV

	1	2	3	4	<u>5</u>
Proxy Group of Eight AUS Utility	Average Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated Common Equity Cost Rate (5)
Reports Water Companies					
American States Water Co Aqua America, Inc Artesian Resources Corp California Water Service Group Connecticut Water Service Inc Middlesex Water Company SJW Corp York Water Co Average	27 % 21 29 32 36 37 19 2.7 2.9 %	01 % 01 01 01 01 01 01 01 01 01 01 01	28 % 22 30 33 37 38 20 2.8 3.0 %	50 % 77 60 46 52 36 77 60 5.8 %	7 8 % 9 9 9 0 7 9 8 9 7 6 9 7 8.8 9.3 % (6)
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co Aqua America, Inc California Water Service Group Southwest Water Company Average	27 % 21 32 1.8 2.5 %	0 1 % 0 1 0 1 	2 6 % 2 2 3 3 1.9 2.6 %	50 % 77 46 7.6 6.2 %	7 8 % 9 9 7 9 9.5 9.7 % (6)
	Based voon Proj	ected Growth in E	PS		
	1	2	<u>3</u>	4	<u>5</u>
	Average Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated Common Equity Cost Rate (5)
Proxy Group of Eight AUS Utility Reports Water Companies					
American States Water Co Aqua America, Inc Artesian Resources Corp California Water Service Group Connectbut Water Service Inc Middlesex Water Company SJW Corp York Water Co	27 % 21 29 32 36 37 19 27	01 % 01 01 01 01 02 01 01 01 01 01	28 % 22 30 33 38 38 20 2.8 30 %	7 0 % 8 9 8 0 7 4 10 0 5 5 10 0 7.0	98 % 111 110 107 138 93 120 98 10.3 % (6)
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co Aqua America, Inc California Water Service Group Southwest Water Company Average	27 % 21 32 1.8 25 %	0 1 % 0 1 0 1 0.1 0.1 %	28 % 22 33 1.9 2.6 %	7.0 % 8.9 7.4 10.5 8.5 %	9 8 % 11 1 10 7 12.4 10.5 % (6) (7)
O duta					
Conclusion Proxy Group of Eight AUS Utility Reports Water Companies					9.8_%
Proxy Group of Four Value Line (Standard Edition) Water Companies					10.1 %

- (1) From Schedule PMA-7 of this Exhibit
- (2) This reflects a growth rate component equal to one-half the conclusion of growth rate (from page 1 of Schedule PMA-9 of this Exhibit) x Column 1 to reflect the periodic payment of trividends (Gordon Model) as opposed to the continuous payment Thus, for American States Water Co., 2 7% x ( 1/2 x 5 0%) = 0 1%
- (3) Column 1 + Column 2
- (4) From page 1 Schedule PMA-9 of this Exhibit
- (5) Column 3 + Column 4
- (6) Includes only those indicated common equity cost rates which are greater than 8.6%, i.e., 200 basis points above the prospective yield on A rated Moody's public utility bonds of 6.6% (from page 1 of Schedule PMA-10 of this Exhibit)
- (7) Excludes Connecticut Water Service Inc 's result of 13 8% and Southwest Water Company's result of 12 4%, because in Ms. Ahem's opinion it is unlikely that a water company would be authorized a return rate on common equity of 12 0% or greater based upon the DCF model in the immediate future

### Southland Utilities, Inc. Derivation of Dividend Yield for Use in the **Discounted Cash Flow Model**

	Spot	Dividend Yield Average of Last 3	Average Dividend
	(7/10/2007) (1)	Months (2)	Yield (3)
Proxy Group of Eight AUS Utility Reports Water Companies			
American States Water Co.	2.7 %	2.6 %	2.7 %
Aqua America, Inc.	2.1	2.0	2.1
Artesian Resources Corp.	3.5	2.2	2.9
California Water Service Group	3.2	3.1	3.2
Connecticut Water Service Inc.	3.5	3.6	3.6
Middlesex Water Company	3.7	3 6	3.7
SJW Corp.	1.9	18	1.9
York Water Co	2.7	2.6	2.7
Average	2.9 %	2.7 %	2.9 %
Proxy Group of Four Value Line (Standard Edition) Water Companies			
American States Water Co.	2.7 %	2.6 %	2.7 %
Aqua America, Inc.	2.1	2.0	2.1
California Water Service Group	3.2	3.1	3 2
Southwest Water Company	1.8	1.8	1.8
Average	<u>2.5</u> %	2.4 %	2.5 %

- Notes: (1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 7/10/07.
  - (2) The average 3-month dividend yield was computed by relating the indicated annualized dividend rate and market price on the last trading day of each of the three months ended June 30, 2007.
  - (3) Equal weight has been given to the 3-month average and spot dividend yield. This provides recognition of current conditions, but does not place undue emphasis thereon.

Source of Information:

Standard & Poor's Compustat Services, Inc., PC Plus Research Insight Database EDGAR Online's I-Metrics Database finance.yahoo.com

# Southland Utilities, Inc. Current Institutional Holdings (1) and Individual Holdings (2) for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

	<u>1</u>	<u>2</u>
	July 2007 Percentage of Institutional Holdings	July 2007 Percentage of Individual Holdings (1)
Proxy Group of Eight AUS Utility Reports Water Companies		
American States Water Co.	54.8 %	45.2 %
Aqua America	43 5	56.5
Artesian Resources Corp.	16.1	83.9
California Water Service Group	43.0	57.0
Connecticut Water Service Inc.	18.5	81.5
Middlesex Water Co.	24.4	75.6
SJW Corp.	42.6	57.4
York Water Co.	10.9	<u>89.1</u>
Average	31.7 %	<u>68.3</u> %
Proxy Group of Four Value Line Water Companies		
American States Water Co.	54.8 %	45.2 %
Aqua America	43.5	56.5
California Water Service Group	43.0	57.0
Southwest Water Company	50.1	<u>49.9</u>
Average	<u>47.9</u> %	52.1 %

Notes:

(1) (1 - column 1).

Source of Information: today reuters com, updated July 11, 2007

### Southland Utilities, Inc. Historical and Projected Growth

								-						
	1	2	3	4	<u>5</u>	<u>6</u>		7	8	ã	10	11	12	13 Average of
		fistoncal Five wth Rate (1)	Five Year Histoncal BR + SV (2)	Value Line Pro 05 to 2009- Rate	11 Growth	Reulers Mean ( Projected Fit Growth F	ve Year Rate No. of	Average Projected Five Year Growth Rate in EPS (3)	Projected Five Year BR + SV (4)	Low	inge of Growth F High	Rates Midpoint	Average of all Growth Rates	Midpoint and Average of all Growth Rates (9)
	DPS	EPS		DPS	EPS	EPS	Est.							
Proxy Group of Eight AUS Utility Reports Water Companies  Amencan Islates Water Co. Aqua Amenca, Inc. Arlesian Resources Corp. Californa Water Service Group Connecticut Water Service inc. Middlesex Water Company SJW Corp. York Water Co.  Average	1.0 % 6.5 3.8 (5) 1.0 1.0 2.0 5.5 5.2 (5) 3.3 %	(2.5) % 8.5 6.3 (5) (0.5) (0.3) 3.5 7.5 6.9 (5)	4,4 % 7.9 5.7 4.9 3.4 4.2 7.1 4.7 5.3 %	3.0 % 9.5 NA 1.0 NA NA NA NA	9.0 % 7.5 NA 6.5 NA NA NA	5.0 10.3 8.0 8.2 10.0 5.5 10.0 7.0	(11 (51 (21 (51 (11 (21 (11) (21)	7,0 % 8.9 8.0 7,4 10.0 5.5 10.0 7,0 %	7.1 % 4.5 NA 5.8 NA NA NA NA NA NA NA	1.0 % (8) 4.6 3.8 1.0 (8) 1.0 (8) 2.0 5.5 4.7 3.0 %	9.0 % (8) 10.3 8.0 8.0 9.0 10.0 5.5 10.0 7.0 8.5 %	5,0 % 7.5 5.9 4.6 5.5 3.8 7.8 5.9	4.9 % (8) 7.8 6.0 4.6 (6) 4.8 (8) 3.8 7.5 6.0 5.7 %	5.0 % 7.7 6.0 4.5 5.2 3.8 7.7 6.0 5.8 %
Proxy Group of Four Value Line (Standard Edition) Water Companies Amencan States Water Co. Aqua Amenca, inc. California Water Service Group Southwest Water Company	1.0 % 5.5 1.0 10.0	(2.5) % 8.5 (0.5) 1.5 5.0 % (8)	4.4 % 7.9 4.9 11.9 7.3 %	3.0 % 9.5 1.0 9.5 5.8 %	9.0 % 7.5 6.5 11.0	5.0 % 10.3 8.2 10.0 8.4 %	(1) (6) (5) (3)	7.0 % 8.9 7.4 10.5 8.5 %	7.1 % 4.6 5.8 5.2 5.7 %	1.0 % (8) 4.6 1.0 (8) 1.5	9.0 % (8) 10.3 8.2 (6) 11.9 9.9 %	5.0 % 7.5 4.6 6.7 6.0 %	4,9 % (8 7.8 4.6 (8) 8.4	5.0 % 7.7 4.6 7.6 6.2 %

Notes: (1) As shown on pages 8 through 15 of this Schedule. Historical growth rates are five-year compound growth rates.
(2) From page 2 of this Schedule.
(3) Average of Columns 5 and 6.
(4) From page 6 of this Schedule.
(5) Calculated using the same methodology as Value Lino investment Survey, i.e., three-year base periods ending 2008.
(6) Average of Columns 1, 2, 3, 4, 5, 6, and 8.
(7) From Column 7.
(8) Excludes negatives.
(9) Average of Column 11 and Column 12.

Source of Information: Value Line Invostment Survey, April 27, 2007 stocsk.us.reuters.com, July 11, 2007

Exhibit No. Schedule PMA-9 Page 2 of 15

### Southland Utilities, Inc. Calculation of Historical BR + SV

	1	<u>2</u>	<u>3</u>	<u>4</u>	5
	BR (1)	S Factor (2)	V Factor (3)	SV (4)	BR + SV (5)
Proxy Group of Eight AUS Utility Reports Water Companies	3.2 %	2.5 %	47.1 %	1.2 %	4.4 %
American States Water Co.	5.1	4.0	69.5	2.8	7.9
Aqua America, Inc. Artesian Resources Corp.	2.7	6.2	47.6	3.0	5.7
California Water Service Group	1.5	6.5	52.6	3.4	4.9
Connecticut Water Service Inc.	2.5	1.6	58.8	0.9	3.4
Middlesex Water Company	1.1	5.4	57.0	3 1	4.2
SJW Corp	7.1	0.0	50.0	0.0	7.1
York Water Co	2.4	3.5	66.8	2.3	4.7
Average	3.2 %	3.7 %	56.2 %	2.1 %	5.3 %
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co.	3.2 %	2.5 %	47.1 %	1.2 %	4.4 %
Agua America, Inc	5.1	4.0	69.5	2.8	7.9
California Water Service Group	1.5	6.5	52.6	3.4	4.9
Southwest Water Company	3.8	15.2	53.3	<u>8.1</u>	11.9
Average	3.4 %	<u>7.1</u> %	55.6 %	<u>3.9</u> %	7.3 %

- Notes: (1) From column 6, page 3 of this Schedule.
  (2) From column 12, page 4 of this Schedule.
  (3) From column 7, page 5 of this Schedule.
  (4) Column 2 \* column 4.

  - (5) Column 1 + column 4.

Exhibit No.\_\_\_\_ Schedule PMA-9 Page 3 of 15

## Southland Utilities, Inc. Historical Internal Growth Rate (1), i.e., BR, for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies for the Years 2002–2005

Dept		1	2	<u>3</u>	4	<u>5</u>	<u>6</u> Five-Year Average 2000-2006
### Special States Water Common Equity Return Rate ### Sp		2006	2005	2004	2003	2002	Internal Growth
### STATION CARRY RELIEF TOWN PROFESSION STATE   ### STATE S	roxy Group of Eight AUS Utility eports Water Companies						
Section   Sect	merican States Water Co.			7 86 84	5 FO N	0.02 M	
Itemal Growth Rate (1)							
Description	etention Ratio Iternal Growth Rate (1)						3 2 % (2)
stealion Railo tenal Growth Rate (1) 3 92 5 13 4 8 90 4 7 75 4 3 61 5 22 5 13 tenal Growth Rate (1) 3 92 5 13 4 8 7 4 1 7 1 7 1 7 1 7 1 7 1 7 1 7 1 7 1 7	qua America, Inc.	10.61 P/	11 En %	11 20 %	12 30 %	13.02 %	
Itemail Growth Rate (1)   3 92   5 13   4 87   5 36   6 29   5 1							
Description	etenion Raio itemat Growth Rate (1)						5 1
etention Ratio  letral Growth Rate (1)  3 8 02 31 08 25 80 19 24 34 86  letral Growth Rate (1)  3 94 278 211 143 338 27  althoris Water Service Group  common Equity Return Rate  7 56 % 931 % 972 % 868 9 956 %  etention Ratio  letral Growth Rate (1)  1 07 2 40 223 976 097 1013  letral Growth Rate (1)  1 07 2 40 223 976 097 155  connecticut Water Service Incommon Equity Return Rate  8 70 2 % 784 % 10 93 % 11 23 % 11 60 %  etention Ratio  1 6 15 4 98 29 02 28 82 28 20  1 8 20 20 20 28 82 28 20  1 8 20 20 20 20 20 20 20 20 20 20 20 20 20	rtesian Resources Corp.		0.00.01	0.40 %	7.45 0/	0.67. 0/	
Itemal Growth Rate (1)   3.94   2.78   2.11   1.43   3.38   2.7							
ommon Equity Return Rate etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 108 249 2902 280 282 2820 etention Ratio (1) 108 25 84 84 99 202 280 282 2820 etention Ratio (1) 108 25 64 99 95 (6.51) 13 33 etention Ratio (1) 109 25 64 99 95 (6.51) 13 33 etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 120 293 315 245 128 24	etention Ratio itemal Growth Rate (1)						2 7
ommon Equity Return Rate etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 107 240 223 076 097 15 etention Ratio (1) 108 249 2902 280 282 2820 etention Ratio (1) 108 25 84 84 99 202 280 282 2820 etention Ratio (1) 108 25 64 99 95 (6.51) 13 33 etention Ratio (1) 109 25 64 99 95 (6.51) 13 33 etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 109 25 093 (0.53) 135 11 (2) etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 1322 634 596 614 385 71 etention Ratio (1) 120 293 315 245 128 24	alifornia Water Service Group						
etention Ratio    1421   25 81   22 97 8 79 10 13	Common Equity Return Rate						
common Equity Return Rate elerhion Ratio         7 02 % 784 % 1093 % 1123 % 1160 % elerhion Ratio         11 123 % 1160 % elerhion Ratio         4 29 02 28 82 28 20 28 82 28 20 20 elerhion Ratio         2 25 (2) elerhion Ratio         4 20 2 28 82 28 20 20 elerhion Ratio         2 25 (2) elerhion Ratio         4 20 2 28 82 28 20 20 28 20 20 20 20 20 20 20 20 20 20 20 20 20	Retention Ratio Internal Growth Rate (1)						15
etertion Ratio (5 16) 4 98 29 02 28 82 28 20 Internal Growth Rate (1) (9 36) 0 39 3 17 3 24 3 27 25 (2) Internal Growth Rate (1) 1 40 0 55 0 93 (0 53) 1 33 3 11 (2)  IMM Corp. Immon Equity Return Rate (10 1 40 0 55 0 93 (0 53) 1 35 11 (2)  IMM Corp. Immon Equity Return Rate (11 1 40 0 55 0 93 (0 53) 1 35 11 (2)  IMM Corp. Immon Equity Return Rate (12 1 1 48 % 11 12 7 % 11 168 % 9 40 % 11 (2)  IMM Corp. Immon Equity Return Rate (13 1 3 22 6 34 5 96 6 14 3 85 7 1  Immon Equity Return Rate (14 1 3 85 7 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Connecticut Water Service Inc.	2.02 0/	7 84 %	10 93 %	11 23 %	11.60 %	
10   10   10   10   10   10   10   10							
Common Equity Return Rale	nternal Growth Rate (1)	(0 36)					2 5 (2)
etentilion Ratio 16 35 6 49 9 95 (6 51) 13 33 eternal Growth Rate (1)  1 40 0 55 0 93 (0 53) 1 35 1 1 (2)    MV Corp.	Aiddlesex Water Company	n ( 5 %	Q #E 0/	9 27 9/	8 17 PL	10 10 %	
1							
11   15   12   13   15   15   15   15   15   15   15	Retention Hallo nternal Growth Rate (1)						1 1 (2)
Control Equity Return Rate   10 52 % 11 85 % 12 17 % 11 66 % 10 37 %   Control Equity Return Rate   10 52 % 11 85 % 12 17 % 11 66 % 10 37 %   Control Equity Return Rate   10 52 % 11 85 % 12 17 % 11 66 % 10 37 %   Control Equity Return Rate   20 87 24 70 25 86 21 04 12 32   Control Equity Return Rate   20 87 24 70 25 86 21 04 12 32   Control Equity Return Rate   20 87 24 70 25 86 21 04 12 32   Control Equity Return Rate   20 87 24 70 25 86 21 04 12 32   Control Equity Return Rate   32 40 43 89 25 17 (12 98) 35 04   Control Equity Return Rate   32 40 43 59 25 17 (12 98) 35 04   Control Equity Return Rate   32 40 43 59 25 17 (12 98) 35 04   Control Equity Return Rate   36 93 43 90 42 75 43 51 45 22   Control Equity Return Rate   36 93 43 90 42 75 43 51 43 51 45 22   Control Equity Return Rate   36 93 43 90 42 75 43 51 43 51 45 22   Control Equity Return Rate   36 93 43 90 42	SJW Corp.		** ** **	14 07 6/	11 CP 2/	0.40 9/	
13 22   6 34   5 96   6 14   3 85   7 1	Common Equity Return Rate						
Common Equity Return Rate   10 52 %   11 85 %   12 17 %   11 66 %   10 37 %   10 52 %   12 87 %   12 88							7.1
10   10   10   10   10   10   10   10							
Average   29 87   24 70   25 86   21 94   12 32   2.4	Common Equity Return Rate	10.52 %	11 85 %	12 17 %			
Average 32 %  Proxy Group of Four Value Line Slandard Edition) Water  Whereigan States Water Co.  Common Equity Return Rate 8 43 % 10 38 % 7 99 % 5 59 % 983 %  Retention Ratio 10 43 59 25 17 (12 98) 35 04  Retention Ratio 10 61 % 11 69 % 11 39 % 12 30 % 13 92 %  Retention Equity Return Rate 10 61 % 11 69 % 11 39 % 12 30 % 13 92 %  Retention Ratio 36 93 43 90 42 75 43 51 45 22  Internal Growth Rate (1) 3 92 5 13 4 87 5 36 6 29 5 1  California Water Service Group  Common Equity Return Rate 10 61 % 93 1 % 972 % 8 68 % 9 56 %  Retention Ratio 14 21 25 81 22 97 8 79 10 13  Internal Growth Rate (1) 107 2 40 2 23 0 76 0 97 1 5  Southwest Water Company  Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 %  Retention Ratio 5 6 40 2 8 8 64 23 6 4 02 8 8 8 64 23 6 4 02 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 64 23 6 4 02 8 8 8 8 8 64 23 6 4 02 8 8 8 8 8 8 64 23 6 4 02 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8	Retention Ratio	20 B7	24 70	25 86			
Proxy Group of Four Value Line Standard Edition) Water Varietian States Water Co Common Equity Return Rate 273 452 201 (073) 344 32 % (2)  Agua America, Inc. Common Equity Return Rate 1061 % 1169 % 1139 % 1230 % 1392 % Retention Ratio 392 513 487 536 629 51  California Water Service Group Common Equity Return Rate 756 % 931 % 972 % 868 % 956 % Retention Ratio 1421 2581 2297 879 1013 Internal Growth Rate (1) 107 240 223 076 097 15  Southwest Water Company Common Equity Return Rate 599 % 538 % 440 % 1020 % 1032 % Retention Ratio 6402 884 864 23 6402  Returning Ratio Ratio 6526 4200 2188 6423 6402	Internal Growth Rate (1)	2 20	2 93	3 15	2 45	1 28	2.4
Standard Edition) Water   Wherican States Water Co.   State States Water Co.   State Sta	Average					=	3.2 %
Numerican States Water Co	Proxy Group of Four Value Line						
Dommon Equity Return Rate   8 43 %   10 38 %   7 99 %   5 59 %   9 83 %							
Retention Ratio 32 40 43 59 25 17 (12 98) 35 04 Alexand Growth Rate (1) 2 73 4 52 2 01 (0 73) 3 44 32 % (2) Alexand Growth Rate (1) 2 73 4 52 2 01 (0 73) 3 44 32 % (2) Alexand Growth Rate (1) 3 2 % (2) Alexand Growth Rate (1) 3 92 5 13 4 87 5 36 5 29 5 1 California Water Service Group Common Equity Return Rate 7 5 6 % 9 31 % 9 72 % 8 68 % 9 56 % Common Equity Return Rate 14 21 25 81 22 97 8 79 10 13 Alexand Growth Rate (1) 10 7 2 40 2 73 0 76 0 97 1 5 Southwest Water Company Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 % Retention Ratio 6 46 26 42 00 2 188 64 23 64 02 Alexand Growth Rate (1) Alexand Growth Rate (2) 8 8 64 23 64 02 Alexand Growth Rate (3) 8 8 64 23 64 02 Alexand Growth Rate (4) 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8	Common Equity Return Rate						
Agua America, Inc. Common Equity Return Rate Retention Ratio 36 93 43 90 42 75 43 61 45 22 Retention Ratio 39 2 5 13 487 5 36 6 29 5 1  California Water Service Group Common Equity Return Rate 10 61 % 11 69 % 11 39 % 12 30 % 13 92 % 42 75 43 61 45 22  5 10 487 5 36 6 29 5 1  California Water Service Group Retention Ratio 14 21 25 81 22 97 8 79 10 13 Retention Ratio 10 7 2 40 2 23 0 76 0 97 15  Southwest Water Company Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 % Retention Ratio 46 26 42 00 21 88 64 23 64 02	Retention Ratio						3.2 % (2)
Common Equity Return Rate   10 61 % 11 69 % 11 39 % 12 30 % 13 92 %							
Retention Ratio 36 93 43 90 42 75 43 61 45 22 milernal Growth Rate (1) 3 92 5 13 4 87 5 36 6 29 5 1  California Water Service Group Common Equity Return Rate 7 5 6 % 9 31 % 9 72 % 8 68 % 9 56 % Retention Ratio 14 21 25 81 22 97 8 79 10 13 milernal Growth Rate (1) 107 2 40 2 23 0 76 0 97 1 5  Southwest Water Company Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 % Retention Ratio 46 26 42 00 21 88 64 23 64 02 Retention Ratio							
California Water Service Group   756 % 931 % 972 % 868 % 956 %   Common Equity Return Rate   756 % 931 % 972 % 868 % 956 %   Common Equity Return Rate   756 % 931 % 972 % 879 10 13   Common Ratio   14 21 25 81 22 97 879 10 13   Common Ratio   107 2 40 2 23 0 76 0 97 15   Common Equity Return Rate   599 % 538 % 440 % 10 20 % 10 32 %   Common Equity Return Rate   599 % 538 % 440 % 10 20 % 10 32 %   Common Equity Return Rate   626 42 00 21 88 64 23 64 02   Common Ratio   626 42 00 21 88 64 23 64 02   Common Rati	Retention Ratio						E •
Common Equity Return Rate 7 56 % 9 31 % 9 72 % 8 68 % 9 50 % Retention Ratio 14 21 25 81 22 97 8 79 10 13 internal Growth Rate (1) 1 07 2 40 2 23 0 76 0 97 1 5 Southwest Water Company  Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 % Retention Ratio 46 26 42 00 2 188 64 23 64 02 Retention Ratio	Internal Growth Rate (1)	3 92	5 13	4 87	5 36	6 29	5 1
Retention Ratio 14 21 25 81 22 97 8 79 10 13 Internal Growth Rate (1) 107 2 40 2 23 0 76 0 97 1 5 Southwest Water Company 5 99 % 5 38 % 4 40 % 10 20 % 10 32 % Retention Ratio 46 26 42 00 21 88 64 23 64 02 Retention Ratio	California Water Service Group	7 56 %	931 %	972 %	868 %		
Internal Growth Rate (1) 1 07 2 40 2 23 0 76 0 97 1 5  Southwest Water Company Common Equity Return Rate 5 99 % 5 38 % 4 40 % 10 20 % 10 32 %  Retention Ratio 46 26 42 00 2 188 64 23 64 02			25 81	22 97			
Common Equity Return Rate 5.99 % 5.38 % 4.40 % 10.20 % 10.32 % Retention Ratio 46.26 42.00 21.88 64.23 64.02	Internal Growth Rate (1)		2 40	2 23	0 76	0 97	15
Retention Ratio 46 26 42 00 21 88 64 23 64 02	Southwest Water Company	4 00 9/	5 3 B W	4 40 %	10 20 %	10 32 %	
Released Auto							
							3.8

Notes: (1) The internal growth rate is calculated by multiplying the common equity return rate by the retention ratio (100% minus the dividend payout ratio). All data are on a consolidated basis.

<sup>(2)</sup> Excludes negatives

### Southland Utilities, Inc. Calculation of Five Year Average Growth in Common Shares Outstanding (1), i.e., S Factor

	<u>1</u> 2001	2	<u>3</u> 2002	4	<u>5</u> 2003	6	<u>7</u> 2004	8	9 2005	<u>10</u>	<u>11</u> 2006	<u>12</u> Five Year Average
	Common Shares Outstanding (1)	01-02 Growth	Common Shares Outstanding (1)	02-03 Growth	Common Shares Outstanding (1)	03-04 Growth	Common Shares Outstanding (1)	04-05 Growth	Common Shares Outstanding (1)	05-06 Growth	Common Shares Outstanding (1)	Common Share Growth
Proxy Group of Eight AUS Utility Reports Water Companies												
American States Water Co.	15.120	0.4 %	15,181	0.2 %	15.212	10.1 %	16.752	0.3 %	16,798	1,5 %	17.049	2.5 %
Aqua America, Inc.	113.977	(0.7)	113.195	9.1	123.452	3.0	127.180	1,4	128,969	2.6	132.325	4.0 (2)
Artesian Resources Corp.	4.590	26.2	5.794	1.0	5.852	1.4	5.934	1,5	6.021	1,1	5.086	6.2
California Water Service Group	15.182	0.0	15.182	11.5	16,932	8.5	18.367	0.1	18.390	12.3	20.657	6.5
Connecticut Water Service Inc.	7,649	3.8	7.940	0.3	7.967	0.9	6.035	1,7	8.170	1.2	8.270	1.6
Middlesex Water Company	10.168	1.8	10.356	2.0	10,567	7.5	11.359	2.0	11.584	13.7	13.168	5.4
SJW Corp.	18.270	0.0	18.270	0.0	18.270	0.0	18.270	0.0	18.270	0.1	18.282	0.0
York Water Co.	9.462	0.9	9.547	0.9	9.629	7.3	10.331	0.7	10,400	7,7	11.201	3.5
Average												3.7 %
Proxy Group of Four Value Line (Standard Edition) Water Companies												
American States Water Co.	15.120	0.4 %	15,181	0.2 %	15.212	10.1 %	16.752	0.3 %	16,798	1.5 %	17.049	2.5 %
Agua America, Inc.	113.977	(0.7)	113,195	9.1	123,452	3.0	127.180	1.4	128.969	2.6	132.325	4.0 (2)
California Water Service Group	15.182	0.0	15,182	11.5	16.932	8.5	18.367	0.1	18.390	12.3	20.657	6.5
Southwest Water Company	14.174	(3.6)	13.662	18.4	16.173	25.9	20.365	3.8	21.129	12.7	23.802	15.2 (2)
Average		•										7.1 %

Notes: (1) Year-end shares outstanding. (2) Excludes negatives.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database

## Southland Utilities, Inc. Calculation of the Premium/Discount of a Company's Stock Price Relative to its Book Value, i.e., V Factor

	1	2	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	7
	2002 Market to Book	2003 Market to Book	2004 Market to Book	2005 Market to Book	2006 Market to Book	Five Year Average Market to	٧
	Ratio (1)	Book Ratio	Factor (2)				
Proxy Group of Eight AUS Utility Reports Water Companies							
American States Water Co.	180.6 %	180.3 %	164.3 %	191.5 %	228.9 %	189.1 %	47.1 %
Aqua America, Inc.	289.8	295.6	291.4	383.8	376.5	327.4	69.5
Artesian Resources Corp.	162.0	184,5	192.8	211.1	203.6	190.8	47.6
California Water Service Group	181.6	199.8	212.6	231.6	229.0	210.9	52.6
Connecticut Water Service Inc.	266.2	265.0	250.5	223.1	207.7	242.5	58.8
Middlesex Water Company	232.9	247.9	241.7	238.9	200.9	232.5	57.0
SJW Corp.	167.3	157.2	178.2	210.6	286.5	200.0	50.0
York Water Co.	281.5	286.9	287.5	311.0	340.0	301.4	66.8
Average						236.8 %	56.2 %
Proxy Group of Four Value Line (Standard Edition) Water Companies							
<del></del>	100 € 0/	180.3 %	164.3 %	191.5 %	228.9 %	189.1 %	47.1 %
American States Water Co.	180.6 % 289.8	295.6	291.4	383.8	376.5	327.4	69.5
Aqua America, Inc. California Water Service Group	209.8 181.6	295.6 199.8	291.4	231.6	229.0	210.9	52.6
Southwest Water Company	240.3	206.2	222.5	185.8	215.6	214.1	53.3
• •	2-0.5	200.2	444.0	100.0	210.0		<del></del>
Average						235.4 %	55.6 %

Notes: (1) Market to Book Ratio = average of yearly high-low market price divided by the average of beginning and ending year's balance of book common equity per share.

(2) (1 - (100 / column 6)),

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database

EDGAR Online's I-Metrics Database Company Annual Forms 10-K

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	Common Outstand (000,0	Common Shares Outstanding (1) (000,000)			Projected 201	rojected 2010 - 2012 (1)	A LOCAL PROPERTY AND ADDRESS OF THE PARTY AND				
	Actual 2006	Projected 2010-2012	S Factor (2)	High Stock Price	Low Stock Price	Book Value	Average Stock Price (3)	V Factor (4)	SV (5)	BR (6)	BR + SV (7)
Proxy Group of Eight AUS Utility Reports Water Companies											
American States Water Co.	17.05	22.00	5.2 %	50.00	35.00	22.25	\$42.50	47.6 %	2.5 %	4.6 %	7.1 %
Aqua America, Inc.	132.33	140.00	1.1	30.00	19.00	9.30	24.50	62.0	0.7	g. 6.	6,6
Artesian Resources Corp.	N A	ΑN	ΥZ	ď	ď	ď	Υ V	ΑN	Y Y	<b>Y</b> Z	Ą
California Water Service Group	20.66	23.00	2.2	50.00	40.00	21.30	45.00	52.7	1.2	4.6	κ. α
Connecticut Water Service Inc.	8.27	¥ Z	<b>∀</b> Z	ΑN	A'N	A'N	A A	Υ	ď	K Z	NA A
Middlesex Water Company	13.17	ΑN	N A	A A	N A	A A	Y Y	Υ	ď	Y Z	Y.
SJW Corp.	18.28	Ϋ́	Ϋ́	Ϋ́Z	A A	NA	Ϋ́	Υ	A A	ď	Ą
York Water Co.	11.20	ď Z	۷ ۲	ΥZ	Ϋ́	Y Z	ď Z	Υ Y	Y Z	AA	NA V
Average			2.8 %					54.1 %	% 5.5	4.4 %	5,8 %
Proxy Group of Four Value Line (Standard Edition) Water											
American States Water Co.	17.05	22.00	5.2 %	\$50.00	\$35.00	\$22.25	\$42.50	47.6 %	2.5 %	4.6 %	7.1 %
Aqua America, Inc.	132.33	140.00	7.	30.00	19.00	9.30	24.50	62.0	0.7	3.9	4.6
California Water Service Group	20.66	23.00	2.2	50.00	40.00	21.30	45.00	52.7	1.2	4.6	5.8
Southwest Water Company	23.80	30.00	4.7	18.00	12.00	10,50	15.00	30.0	1.4	3.8	5.2
Average			3.3 %					48.1 %	1.5 %	4.2 %	5.7 %

NA = Not Available

Nates: (1)
(2)
(3)
(4)
(5)
(6)
(7)

From pages 8 through 15 of this Schedule.

The S Factor is the six or five year compound growth rate between the 2006 and 2011 (mid-point of 2010-2012 projection) common shares outstanding.

The Average Stock Price is the average of column 4 and column 5.

(1 - (column 6 - column 7))

Column 3 - column 8.

From page 7, column 14 of this Schedule.

Column 9 + column 10.

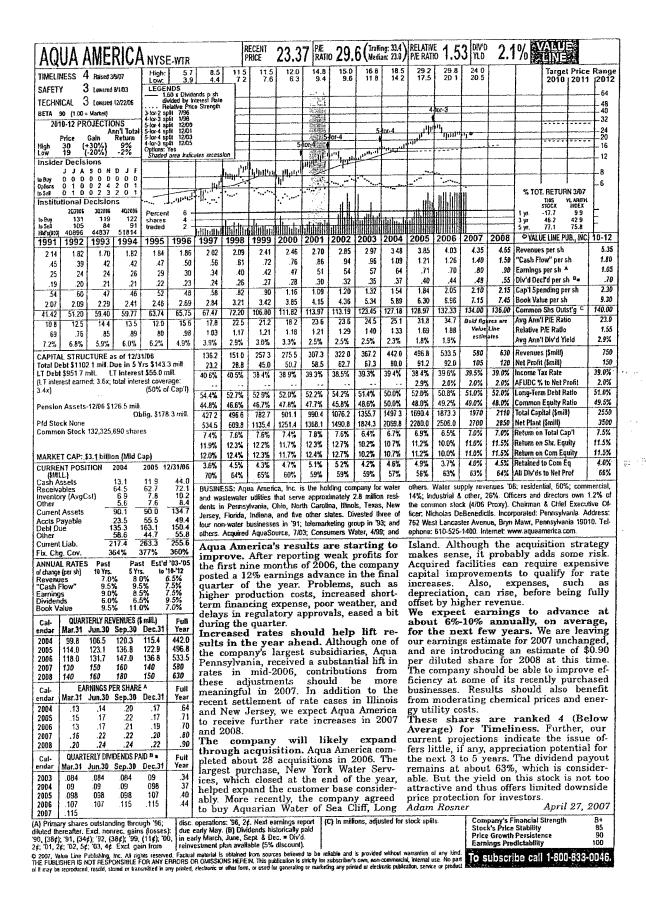
Source of Information: Value Line Investment Survey, April 27, 2007

	킈		Projected Infernal Growth (8)		\$ 9°	9.6	A'N	9.4	Ą	Ą	Ϋ́	A'A	4.4 %		4.6 %	9.6	<b>2</b> .	3.8	* 2 *
	티		Retention Retig [7]		48.3 %	33.3	Ą	44.2	ď	ď	ď	٩			48.3 %	33.3	44.2	51.4	
	27	2012	0PS (1)		\$1,06	0.70	ď	1.20	ď	ď	<b>4</b> 2	<b>4</b> 2			\$1.06	0.70	1.20	0,34	
	타	2010-2012	(1) SH2		\$2.05	1.05	ď	2.15	٩	ď	ď	<b>4</b> 2			\$2.05	1,05	2.15	0.70	
	의		Return on Average Common Equity (6)		9.45 %	11.85	đ	10.30	٩	AN AN	ď	٩			9.45 %	11.85	10.30	7 42	
	OΝ		Return on Common Equity (1)		8.00.6	11.50	NA	10.00	NA	Ā	Ą	NA			% 00'6	11.50	10.00	2 00	
	ш)		ROE Adjustment Foctor (5)		1.05 %	1.03	Y.	1.03	ĄN	Ą	ď	¥2			1.05 %	1.03	1.03	1.06	
Rate	~1		Annual Common Equity Growth Rate (4)		11,44 %	6.48	NA	5.39	NA A	A/A	Ϋ́	NA A			11.44 %	6.49	0.00	13.71	
Southland Ullittes, inc. Protested Internal Growth Rate	Φl		Common Equity (S.mil) (3)		\$487.33	1,262,25	Ϋ́	492.15	₹	ď	Š	<b>∢</b> Z			\$487.33	1,262,25	492.15	316.40	
Projects	vni	2010-2012	Total Capital (S.mill) (1)		2065.00	2,550.00	Ϋ́	965.00	4N	AX AX	4 A	AN			\$965.00	2,550.00	965.00	560.00	
	41		Common Equity (%) (1)		50.50 %	49.50	Ϋ́	51.00	Ą	N.	Ą	AN			\$0.50 %	49.50	51,00	56.50	
	mi		Common Equity (\$ mill) (2)		5283.52	921.66	ž	378.56	Ą	Ā	Ą	٧			\$283.52	921.66	378.56	166.44	
	rva:	2006	Total Capital (5 mill) (1)		\$551.60	0.873.30	ď	673.60	ΑN	Ā	Ą	AN			\$551.60	1,873.30	673.60	295.10	
	~1		Common Equity (%)(1)		51.40 %	49.20	<b>₹</b> Z	26.20	ĄV	ĄN	ď	ď			51.40 %	49.20	96.20	56.40	
				Proxy Group of Eight AUS Utility Reports Water Companies	American States Water Co	Agua America, Inc.	Artesian Resources Corp.	California Water Service Group	Connecticut Water Service Inc.	Middlesex Water Company	SJW Corp.	York Water Co.	Average	Proxy Group of Four Value Line (Standard Edition) Water Companies	American States Water Co.	Aqua Amenca, inc.	California Water Service Group	Southwest Water Company	Average

(1) From pages 8 through 15 of this Schedole.
(2) Column 1 - Column 3.
(3) Column 4 - Column 3.
(4) For year or companing growth rate in common equity from 2006 to 2010-2012 or (((column 6 / column 3) \* (1/5)) - 1)).
(5) 2 \* (11 \* column 10 \* column 7).
(6) Column 12 \* column 11.
(8) Column 10 \* column 13. Notes

Value Line Investment Survey, April 27, 2007

TIMELINESS	STAT 5 Lowered 12	1/06	High: Low:	16.1 12.5		19.5	26.5 14.8	25.3	26.4	29.0	29 0 21 6	26.8 20.8	RELATIV P/E RATI 34.6 24.5	43.8 30.3	41.1 35.4		, page		Price	
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T Debt \$267.8	mill. LT I	nterest \$2			41.1%	40 9%	46.0%	45.7%	43 0%	38.9%	43.5%	37.4%	47.0%	40.5%	41.0%		Income Ta			42.07
LT interest earn coverage: 2.9x)			19% of (	Cap'l)				17.58	5100			477.704			Nil 40 FM		AFUDC %			N
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ension Assets	s-12/06 \$64.3			ŀ	268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	635	720	Total Capi	tal (\$mill		96
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Common Stock	17 049 137	che		l	6 9% 9 2%	7.0% 9.4%	10.0%	9.2%	10.1%	9.5%	56%	55%	8.5%	8.1%	8.5%		Return on			9.0%
AARKET CAP:	\$625 million	(Small C			9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	8.5%		Return on			9.0%
CURRENT POS (\$MILL.)	ITION 200		05 12/3	- 1	1 8%	2.1% 78%	2.9% 72%	3.0% 58%	3.6% 65%	3.3% 65%	NMF 113%	1.0%	2.8% 67%	2.7% 67%	3.5% 60%		Retained t All Div'ds :			4.5% 52%
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11.38 11.3	38 11.38	12.49	12.54	12.62	12.62	12.62	12,94	15.15	15.18	15.18	16.93	18.37	18.39 24.9	20.66 29.6	21.00 Bold figs	21.50		Shs Out		23.
11.2 14	.1 13 5 86 80	14 1 .92	13.7	11.9	12.6 73	17.8 .93	17.8 1.01	19.6 1.27	27.1	1 08	1.26	1.06	1.33	1.57	Value	Line	Relative			1.
.72 .8 6.6% 6.1		5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	3.4%	estin	afes	ļ	'I Div'd Y	ield	2.7
APITAL STE					195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	365	390 40.0	Revenue Net Prof		-	5
otal Debt \$2 T Debt \$291		lue in 5 Y Tinteres	′rs \$11.9 it \$22.5 п	mill. n∰.	23.3 37.4%	18.4 36.4%	19.9 37.9%	20.0 42.3%	39 4%	19.1 39.7%	19.4 39.9%	26.0 39.6%	27.2 42.4%	25.6 39.7%	35.0 41.0%		Income			41.0
					31.470	30.7 2	37.3%				10.3%	3.2%	3.3%		Nä	NII	AFUDC '			
T interest ea	amed: J. 5x;	total int. c	:DV.; 3.2X	,	45 4%	44.2%	45 9%	48 9%	50.3%	55.3%	50.2%	48.6% 50.8%	48.3% 51.1%	43.3% 56.2%	44.5% 55.0%	46.5% 53.0%	Long-Tei Commor			48.5 51.0
ension Asso		'8.4 mill. Obliq. \$10	lim 1 P		53.5% 306.7	54.7% 308 6	52.0% 333 8	50.2% 388 B	48.8%	453.1	49.1%	565.9	568.1	673.6	730	790		oltal (\$mi		9
fd Stock \$3	5 mill. P	ifd Div'd	\$.15 mili.		460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1000	1060	Net Plan			12
39,000 share	es, 4 4% cun	nulative (:	\$25 par).		9 4%	7.8%	7.8%	6.8%	5.3%	5.9% 9.4%	5 6% 7.8%	6.1% 8.9%	6.3% 9.3%	5.2% 6.7%	6.5% 8.5%		Return o Return o			7.0 10.0
common Sto	ck 20,656,6	99 shs.			13.9% 14.1%	10.7% 10.8%	11.4%	10.0%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.5%		Relum o			10.0
s of 3/6/07 MARKET CAI	P: \$850 mill	lon (Sma			6.0%	2.8%	3.5%	1.8%	NMF	1.0%	7%	21%	2.1%	.5%	25%		Retained			4.5 55
URRENT PO	OSITION	2004	2005 1	2/31/06	58%	74%	70%	82%	119%	90%	91%	77%	78%	93%	70%		Ali Div'd			·
Cash Assets Other		18.8 51.5	9.5 42.7	60.3 49.3	BUSIN	ESS: Cal	lifornia W ater serv	later Sen ice to ov	vice Grou er 2 milli	ip provide Igosg no	s regulat e (483,90	ed and OD cus-	18%; pt	1/00). Re	orities, 5	%; indus	trial, 5%;	other, 2	%. 05 re	eporte
Current Asse	ets	70.4	52.2	109.6	tomers'	in 83 c	dinummo	es In Cal	lifornia, V	Vashingto	n, New I	Vexico,	deprec.	rate; 3.3° Preside	%. Has n	oughly 8'	70 emplo	yees. Ch	alıman: Delawa	Robe re A
Accts Payabl Debt Due		19 8	36.1 1.1	33.1	Sacran	ento Va	Aaln ser Ney, Salir	nas Valle	ıy, San J	v niupsoi	alley & p	oarts of	dress:	720 Nor	th First S	Street, S	an Jose,	Californi	ia 95112	2-459
Other Current Liab.		36.3 57.2	39.6 75.8	- 35.3 70.2	Los An	geles. Ar	quired N	ational U	Hility Corr	npany (5/	04); Rio	Grande		ne: 408-3						<del>.</del> .
ix. Chg. Co	v. 3		361%	317%	Cali	forni	a Wa ised t	ter S	Servic	ce Gi	roup	ap- line	enact	some Water	of the Actio	e reto na Pl	rmatio an th	ons pr at ar	opose e on	ea 11 th
ANNUAL RAT I change (per si			st Est'd s. to	! '03-'05 '1 <b>0</b> -'12	rehn	hen	this	vear.	Althe	ough '	the w	ater	table	. A de	cision	is ex	pecte	in tl	he se	con
Revenues 'Cash Flow''	2.5° 3.0°	% 1.5		3 5% 5.0%	utilit	v pro	vider	had s	some t	troubl	e in 2	:006,		of thi share					ducin	ıg a
arnings Dividends	1.0° 1.5°	% -0.:	5%	6.5% 1.0%	we e	xpect	bette e firs	r wea t half	ther c	ondiu vear	ons, e to he	spe- lp it		tal co					probl	lem
look Value	3.0			5.0%	boun	ce ba	ck. M	eanw	hile, t	here	are be	etter	thou	gh. (	CWT	is m	aking	heav	y inv	vest
	ARTERLY RE			Full Year	regu forni		pract ublic	ices i	n play	DOW. Co	The ( mmis	Jalı- sion	tal	s in it expen	diture	es ha	ave i	ncrea	sed	sig
ndar Mar. 2004 60.2	31 Jun.38 2 88.9	97.1	69 4	315.6	(CPI	IC), w	hich i	is rest	oonsib	le for	maint	ain-	nifica	intly i	n rece	ent ye	ars a	od are	: likel	ly t
2005 60	3 81.5	101.1	77.8	320.7	ine s	ı hala	nce be ities,	etweer	a cons	umer:	s and	Cai-	rema	in hi <sub>l</sub> rtunat	gh for	r tbe t doe	tores	idasəs have	e Iui	ure
2006   65.; 2007   <i>70</i> .;		107.8 120	80.6 85.0	334.7 365	allov	red R	$\mathbf{OE}$ of	10.2	% ов	its ge	neral	rate	cash	on ha	nd to	foot t	he bil	l, mal	cing a	addi
2008 75.0	0 97.0	128	90.0	390	case	regar	ding 2	24 dis	tricts.	The r	uling	was		l stock vth-m						
Cal-	EARNINGS PE	R SHARE Sep.30		Full Year	in li	ne wi	th wh oving	at we	expe	cted a	ma pe onmer	omts nt in	look	elser	where	. The	e stoc	k is	ranke	ed 🛭
		.59	.20	1.46	the s	state.	This	augur	s well	l for t	he cor	npa-	(Low	est) fo	r Tim	eline	ss and	l offer	s lim	iite
ndar Mar.:		.71	.32	1.47	nv's	prosp	ects, a recove	ıs it s	${f ubmit}$	s a ge	neral	rate	ਰ- to ite fir	5-yea	ır app	orecia blems	uon p	oreut	ы, g	1461
ndar Mar. 2004 .00 2005 .00		.68	.31 .34	1.60	Leosts	for e	eight	of its	distri	icts ev	ery t	hree	That	said	thos	se lo	oking	for	a ste	ad
endar Mar.3 2004 .00 2005 .00 2006 .04	4 .31	.76	.38	1.75	l vear	s, and	has	a few	cases	curre	ntiy b	eing	strea	m of Despi	inco	me n	al cor	<b>ke w</b> l	natt nts C	ney W
endar Mar. 200400 200500 200600 200700 200810	4 .31 8 .42 0 .45	.82			revie	wed.	Agair to pos	st th	is bac ire ea	:karop :mine:	,we sof\$	1.60	recen	tly ra	ised it	ts anı	oual d	ivider	id, m	ark
endar Mar.: 2004 .00 2005 .00 2006 .04 2007 .00 2008 .10 Cal- QU/	4 .31 8 .42 0 .45 Arterly Div	.82 Idends P	VID B .	Full	for f		po:	entin	g a 19	% gai	n.		ing t	he 401	th con	secut	ive ye	ar of	incre	ease
endar Mar.: 2004 .00 2005 .00 2006 .00 2007 .00 2008 .10 Cal- QU)	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30	.82 IDENDS P/ Sep.30		Year	for (	year,	repres				mome	nts	Aitho	nah ti			_1 .		:-	
2004 .08 2005 .00 2006 .04 2007 .00 2008 .11 Cal- phdar Mar. 2003 .281	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30 1 .281 3 .283	.82 DENDS P/ Sep.30 .281 .283	Dec.31 281 283	1.12 1.13	this Furt	year, : her	reg	ulato	ry i	mpro	Giver	the	ment	S Ont	nere a there	re hi CWT	gher-3	rieldin	g ins	age
2004 .00 2005 .00 2006 .0- 2007 .00 2008 .1- Cal- pndar Mar. 2003 .28 2004 .28 2005 .28	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30 1 .281 3 .283 5 .285	.82 IDENDS P/ Sep.30 .281 .283 .285	Dec.31 281	1.12	this Furt show	year, i her ild b C's i	reg post : nore	ulato: 2008 busin	earni 1ess-fr	ngs. iendly	Given nat	the ure,	ment Safet	s out : y rank	there,	CWT	gher-y 's 2 (A	rieldin Above	g ins Avera	age
ndar Mar. 200400 200500 200600 200700 200810 Cal- QU/ mar. 2003280 2004283 2005285 2006287	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30 1 .281 3 .283 5 .285 75 .2875	.82 DENDS P/ Sep.30 .281 .283	Dec.31 281 283 285	1.12 1.13 1.14	this Furt show	year, i her ild b C's i	reg	ulato: 2008 busin	earni 1ess-fr	ngs. iendly	Given nat	the ure,	ment Safet	s out : y rank	there, cadds	CWT appe	gher-y 's 2 (A	rieldin Above	g ins	age 200
ndar Mar. 2004 0 2005 0 2006 0 2007 0 2008 1 Cal- 10dar Mar. 2003 28 2004 28 2004 28 2006 28 2007 29 0 Dask EPS.	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30 1 .281 3 .283 5 .285 75 .2875 0	.82 IDENDS P/ Sep.30 .281 .283 .285 .2875	Dec.31  281 283 285 2875  ain (loss	Year 1.12 1.13 1.14 1.15	this Furt shou CPU there	year, ther ald be C's to a	reg post nore good	ulator 2008 busin chanc	earni ness-fr ce tha	ngs. iendly t the (C) Ind. (	Given nat board	the ure, will	ment Safet	s out y rank e <i>J. C</i> e	there, c adds ostanz	CWT appe a pany's l	gher-y 's 2 (A al. Financial	Above Apri	Avera	age 200 B++
ndar Mar.3 2004 .00 2005 .00 2006 .00 2007 .00 2008 .10 Cal. QU/ndar Mar.3 2003 .281 2004 .283 2004 .283 2006 .287 2007 .290	4 .31 8 .42 0 .45 ARTERLY DIV 31 Jun.30 1 .281 3 .283 5 .285 75 .2875 )	.82 IDENDS P/ Sep.30 .281 .283 .285 .2875	Dec.31  281 283 285 2875  ain (loss	Year 1.12 1.13 1.14 1.15	this Furt show CPU there	year, ther ald be C's to a	reg post nore good	ulator 2008 busin chanc	earni ness-fr ce that b., nl plan	ngs. iendly t the (C) Ind. o \$3.35/sh. (D) In mil	Given nat board lefened o	the ure, will harges usted for	ment Safet Andri In '06: \$6	s out ty rank e J. Co 9.5 mil.,	c adds	CWT appe a pany's l k's Price Growth	gher-y 's 2 ( <i>f</i> al.	Above April Strengtly	Avera	age 200

CONN. V	VATER S	SERVIC	ES NDQ-		CENT 24.	25 TRAILIN	io 29.9 PA	LATIVE 1.4	<del></del>	.5%	NE	
RAN	KS	19.0 13.3	24.67 12.67	23.50 17.00	32.21 19.50	31,09 20.35	30.41	29.76 23.83	28.17 21.91	27.71 20.29	25.09 22.52	High Low
PERFORMANCE	2 Above Average		GENDS		CONTRACTOR SEAT SEATON	ļ		L			ļ	<b>- 45</b>
Technical	3 Average	11 Rai	los Mov Avg Price Strength	<u></u>	7377194815 25427640		·					- 30
SAFETY	3 Average	3-for-2 sp 3-for-2 sp			TO U	باللبائرة	79710-1111	1,11111	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	4444	2, *	- 22.5
			indicales recession	4444	SPINE TO SELECT		1				!	_13
BETA .90	(1 00 = Market)	111111	1:1:	<b></b>	2,027512							- 13 - 9
			<del> </del>									•
Financial Strengtl	h B+		+	<del> </del>	### (J-2	<del> </del>	<del> </del>	<del> </del>	·		l	-6
Price Stability	75		<del> </del>	ļ		ļ	<del> </del>		<del> </del>	ļ		-4
Price Growth Per	sistence 55		+	<del> </del>	STATE		<del> </del>					- 3
				<del> </del>	en termet	11,	<b></b>		1-11-11-11-1	1.11111111		→ 350 - VOL.
Earnings Predicts	onity or	uuull		10.01		<b>hrii</b> llin						(ป่างบร
O VALUE LINE PI	UBLISHING, IN		1999	2000	2001	2002	2603	2004	2005	2006	2007/200	08
SALES PER SH	<u> </u>	5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68		
"CASH FLOW" PI	ER SH	1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	# 05 A.B/#	4 E C
EARNINGS PER S		1.02	1.03	1.09	1.13	1.12	1.15	1.16 .84	.88 .85	.81 .86	1.05 <sup>A.B</sup> /1.	13 -
DIV'DS DECL'D P CAP'L SPENDING		1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96		
BOOK VALUE PE		B,52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60		
COMMON SHS OF	UTST'G (MILL)	6.80	7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	22 4/24	<del></del>
AVG ANN'L PIE R		15.5	18.2	18.2 1.18	21.5 1.10	24.3 1.33	23.5 1.34	22.9 1.21	28.6 1.51	29.1 1.57	23.1/21.	. *
RELATIVE P/E RA AVG ANN'L DIV'D		4.9%	1.04 4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%		
SALES (\$MILL)	, item	37.9	42.6	41.5	45.4	45.8	47.1	48.5	47.5	46.9	Bold figur	
OPERATING MAR		46.2%	48.7%	48.8%	56.1%	57.7%	52.1% 5.9	51.0% 6.0	48.3% 6.1	43.7% 5.9	are consen earnings	
DEPRECIATION (		3.9 7.0	4.5 7.5	4.7 8.0	5.0 8.7	5.4 8.8	9.2	9.4	7.2	6.7	estimate:	
NET PROFIT (\$MI		34.3%	40.1%	35.7%	36.1%	33.8 %	17.9%	22.9%	-	23.5%	and, using	
NET PROFIT MAR		18.4%	17.6%	19.2%	19.1%	19.7:%	19.5%	19.4%	15.1%	14.3%	recent pric	
WORKING CAP'L		d3.7	d3.8	.3 64.7	d3.3 64.0	d5. ! 64.8	d3.9 64.8	d.7 66.4	13.0 77.4	1.2 77.3	P/E ratios	5.
LONG-TERM DEB SHR. EQUITY (\$M		62.5 58.7	65.4 63.3	65.7	71.6	80.7	84.2	88.7	94.9	96.7		
RETURN ON TOTA		7.3%	7.4%	7.6%	7.9%	7.4%	7.5%	7.0%	5.0%	4.9%		
RETURN ON SHR	EQUITY	11.9%	11.8%	12.1%	12.1%	10.9%	10.9%	10.6% 3.1%	7.5%	6.9% NMF		
RETAINED TO CO		2.8% 76%	3.1% 74%	3.2% 74%	36% 71%	3.1% 72%	71%	71%	95%	105%		
ALL DIV'DS TO N  ANo. of enalysis cha	onling earn et! if	last 14 days:	up. 0 down: cons	ensus 5-year ear	mings growth 10			analyst's estimal	e Cased upon	one analyst's es	timate.	
	VNUAL RATES		T T			1			STRY: Wa			
of change (per sh		. 1 Yr.	ASSETS (\$1 Cash Assets		.7 4.4	12/31/06	· · · · · · · · · · · · · · · · · · ·					
Sales	-	-2.5%	Receivables		9.8 5.9	9.5	BUSINES	S: Connec	cticut Wate	r Services,	Inc. prima	nly
"Cash Flow" Earnings	-0.5% -2.5%		Inventory (A Other		,9 .9 3,9 14.9	.9 2.4	operates a	s a water	utility cor	npany in (	Connecticut.	ll.
Dividends	1.09	6 1.D%	Current Ass	-	5.3 26.1	14.2	operates to	rougn inte	e segment nd Service	s: water A s and Rent:	ctivities, R als. The Wa	ater
Book Value	5.0%	-									g water to	
, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	TERLY SALES	(\$mill.) Fu 4Q Ye				370.5					egment is	
Year 1Q	2Q 3Q	11.7 48	" Accum Depr	eciation 98	8.4 97.3 5.1 247.7	102.4 258.1	volved in the	he sale of i	ts limited e	xcess real e	state holdin	igs.
12/31/04 10.9 12/31/05 10.9	12.0 13.9 11.0 14.1	11.7 40		_2	9.5 <u>32.2</u>	32.9	The Service	es and R	entals segr	nent provid	des contrac	nted
12/31/06 10.5	11.4 13.3	11.7 46	9 Total Assets	296	0.9 306.0	315.2					d other clies third parts	
12/31/07			LIABILITIES	(\$mill.)							ations of wa	
	NINGS PER SH	ARE Fu	H Accts Payab	te :	5.5 4.8	6.0 5.3	and wastev	vater facilit	ies; Lineba	cker, its se	rvice line p	010-
Year 1Q	2Q 3Q	26 1.1			5.0 7.1 4.4 1.3	1.7	tection pla	n for pub	lic drinkin	g water c	ustomers; a	and
12/31/03 .26 12/31/04 .24	15 .48 .26 .47	.19 1.1	بيب ما"	_	5.9 13.2	13.0					inking water	
12/31/05 24	.15 .41	.08 .8	. 1				businesses	and residen	ces via tani	ker truck. A	s of March tely 83,000	17,
12/31/06 .21 12/31/07 .22	.12 .45 .23 .36	.03 .8		A DEBT AND E	QUITY	1	286 000 cm	iy piovided	a water to 41 towns i	n Connecti	cut. Has ab	out
	ERLY DIVIDENT	OS PAID Fu	as of 12/	31/06		1	200 employ	ees. Chairn	nan: Marsh	all T. Chiara	aluce. Inc.: (	CT.
endar 10	2Q 3Q	4Q Ye		82.6 mill.	Due in 5 Yrs	. \$5 3 milt	Address: 9	3 West Ma	in Street,	Clinton, C	Г 06413. Т	ei.:
2004 .208	208 21	.21 .8	LT Debt \$77	.3 mill.		ŀ	(860) 669-8				.com.	
2005 .21	21 213	213 .8	including C	ap. Leases Nor	(449	% of Cap'l)					A	1.Z.
2005 213	.213 215	.215 .8	Leases, Une	apitalized Ann	uai rentals \$ 3	mill.			April 27, 2	007		
2007 1 245			Pension Lia	bility None in '0	s vs None in 105	s  -						
2007 .215		IONS	į.			3	TOTAL SH	AREHOLD!	ER RETUR	N		
INSTITU	ITIONAL DECIS		Did cinal e	milt	PIA Dioła	Pald NMF			Dividend	e nhis annmerist	ion as of 7/21/2	2007
INSTITU 2	Q'05 3Q'0	6 40,06	Pld Stock \$ 8			Pald NMF			Dividend.	s plus appreciat	ion as of 3/31/2	
INSTITU		6 4Q'06 18	İ	l mill ck 8,270,394 sha	ires	Paid NMF	3 Mos.	6 Mos.	1 Yr. -4.83%	s plus apprecial 3 Yrs -6.21	5 Yı	rs.

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	NI		RATIVE 1.13	ZJ. I PÆ			RE( PR	MSEX	NDQ.	IER	SEX WAT	
19.07 His 16.93 Lo	20.50 16.50	23.47 17.07	21.81 16.65	21.23 15.77	20.04 13.73	18.73 14.69	16.97 12.50	19.75 10.50	2.88 9.63	1:	NKS	
18	77,774	بدانال	· <u>1</u> 114+ <sub>114</sub>						LEGE		4 Below Average	ERFORMANC
13			11+1	*****	m mi	ويبيلس	44-1-1-1-1	s Mov Avg ice Strength	12 Mo: Rei Pri 2 split 1	Π	3 Average	echnical
A				٠٠٠.				1 1/03 licates recession	3 split 1	II 4-for-3	3 Average	AFETY
						**************************************			•	1	(1.00 = Market)	ETA 85
5											•	
3						7 11					th B+	nancial Stren
2											80	
												rice Stability
.T vo	1.111.1-1.1		1711			GASSETSKI GASSETSKI SUPERSON						rice Growth P
(thou				шиши			աևևսա	11111111111			ablity 70	arnings Predi
2007/2008	2006	2005	2004	2003	2002	2001	2000	1999			UBLISHING, INC.	VALUE LINE
	6.16 1.33	6.44 1.33	6.25 1.28	6.12 1.15	5.98 1.20	5.87	5.39	5.35	39			ALES PER SH
.86 A.B/.88 C	.82	.71	.73	.61	.73	1.18 .66	.99 .51	1.19 76	.02 .71	,		CASH FLOW" ARNINGS PER
	.68 2.31	.67 2.18	.66 2.54	.65 1.87	.63	.62	.61	.60	.58			IV'DS DECL'D
	9.82	8.60	8.38	7.60	1.59 7.39	1.25 7.11	1.32 6.98	2.33 6.95	.68 .80			AP'L SPENDI
22.0/21.5	13.17	11.58 27.4	11.36 26.4	10.48	10.36	10.17	10.11	10.00	.82	9.	DUTST'G (MILL)	OOK VALUE I OMMON SHS
	1.23	1.45	26.4 1.39	30.0 1.71	23.5 1.28	24.6 1.26	28.7 1.87	17.6 1.00	.2 .79	15	RATIO	VG ANN'L P/E
Bold figures	3.7% 81.1	3.5%	3.4%	3.5%	3.7%	3.8%	4.2%	4.4%	.4%			ELATIVE PÆ VG ANN'L DIV
are consensus	47.4%	74.6 44.4%	71.0 44.4%	64.1 44.0%	61.9 47.1%	59.6 47.2%	54.5 32.2%	53.5 33.9%	.1	43		ALES (\$MILL)
earnings	7.8	7.2	6.4	5.6	5.0	5.3	4.9	4.3	8			PERATING M. EPRECIATION
estimates and, using the	10.0 33.4%	8.5 27.6%	8.4 31.1%	6.6 32.8%	7.8 33.3%	7.0 34.8%	5.3 33.1%	7.9	.5		IILL)	ET PROFIT (\$
recent prices,	.12.4%	11.4%	11.9%	10.3%	12.5%	11.7%	9.7%	28.8% 14.7%	.5% .1%	í		ICOME TAX R ET PROFIT M
. P/E ratios.	2.B 130.7	d4.5 128.2	d11.8 115.3	d13.3 97.4	d9.3	d.9	d2.7	6.8	.6	14		ORKING CAP
	133.3	103.6	99.2	83.7	87.5 80.6	88.1 76.4	81.1 74.7	82.3 74.6		78		ONG-TERM D
	5.1% 7.5%	5.0% 8.2%	5.1% 8.5%	5.0%	6.0%	5.6%	4.9%	6.4%	.7%			HR. EQUITY ( ETURN ON TO
	1.2%	.5%	.9%	7.9% NMF	9.6%	9.1%	7,1% NMF	10.6% 2.5%	.1%			ETURN ON S
	84%	94%	90%	106%	87%	0.4%	1219/	700/		2 4 6 4		ETAINED TO LL DIV'DS TO
31E.	ne enerysis esum	STRY: Wa	ilysis' eslimates.	ased upon 2 and	% per year. B	nings growth 8.1	ensus 5-year ea	ip, 0 down, cans	ays: 0 u	in last 14 de	NET PROF hanging eam. est in	No. of analysts
					12/31/06	04 2005		ASSETS (\$n			ANNUAL RATES	
engages in the	Company	sex Water	S: Middle	BUSINES	5.8 12.6	4.0 3.D 9.9 11.8		Cash Assets Receivables	1 <b>Y</b> r. 4.5%	%	thare) 5 Yrs. 2.5%	of change (per Sales
utility system s a regulated	as well a	on of regu Delaware	and operat	ownership	1.3	1.2 1.3 .9 <u>.9</u>	ig cost)	Inventory (A) Other	0.5% 5.5%		3.5% 3.5%	"Cash Flow" Earnings
contract opera	y. It offers (	New Jersey	utility in	wastewater	20.9	6.0 17 0	ats 1	Current Asse	1.5% 4.5%	%	2.0% 5.0%	Dividends
ance program	ine mainten	service li	ices and a	tions servi			nl	Property, Pla	Full		RTERLY SALES (	Book Value
Service Affili n treats, stores	ary, Unnty mility systen	led Subsidi	nonregula	through its	376.8 59.7	4.9 343.0 2.0 55.0	at cost 31	& Equip, a	Year	4Q	ZQ 3Q	iscal Q∪ Year 1Q
cial, industrial	ial, commer	or resident	utes water	and distrib	317.1 32.3	2.9 288.0	28	Net Property	71.0		17.8 19.8	2/31/04 15.9
ial contract, i	Inder a spec	urposes. U	revention p	and fire pr	370.3	6.7 19.4 5.6 324.4			74 6 81.1		18.4 20.8 21.0 22.6	2/31/05 16.7 2/31/06 18.2
services to the er's other Nev	ia pumping ddlesex Wat	eatment an	ies water tr	also provid			Itmill )	I IADRITIES			2,70	2/31/07
iter services to	and wastewa	fer water a	sidiaries of	Jersev sub	5.5	6.0 6.0	le	Accis Payab	Full		RNINGS PER SH	1300
mpany's Dela	ship. The co	ton Towns	n Southam	residents in	2.5 10.1	2.1 5.9 9.7 <u>9.6</u>		Debt Due Other	Year .61	4Q	2Q 3Q	Year 10
outhern Shore ronmental Ser	mes, mc.; S ewater Envir	water Util	diaries, Tid	Water Com	18.1	7.8 21.5	2	Current Liab	.73	.11 .19	.17 .22 .16 .29	2/31/03 .11 2/31/04 .09
tomers in Nev	to retail cus	r services 1	offer water	vices Inc.					71 .82	.17	.16 .26	2/31/05 .12
43 employees	ities. Has 2	ssex coun	ent, and Su	Castle Ke		QUITY	DEBT AND		1.02		.25 .28 .24 .30	2/31/06 .15 2/31/07 .14
Address: 1500 30. Tel.; (732	s. 1nc.: NJ. selin. NI 088	Tompkins ox 1500 Te	J. Richard	Chairman:	513 5 -: 11	D l. 636			Full		TERLY DIVIDEND	Cal- QUA
ter.com.	niddlesexwa	tp://www.n	Internet: h	634-1500.	φ13.3 iTill.	Due in 5 Yrs.	0,7 mill.	LT Debt \$13	Year	4Q	2Q 3Q	endar 10
A.Z					% of Cap'l)	(50	ap. Leases No	Including C	.66 .67		.165 .165 .168 .168	2004 .165 2005 .168
	2007	April 27, 2					apitalized Ani	Leases, Uni	68		.17 .17	2006 .17
	RN	ER RETUR	AREHOLD	12 IATOT	nill, in '05	in '06 vs \$6.7	billty \$164 mil	Pension Lia		CIONS	THE PERSON AS A PE	2007   173
				, O ME OI	ald \$ 2 mill.	PHd Div'd P	Him 0	Pld Stock \$4	1Q'05		TUTIONAL DECISI 20'05 30'0	INST
tion as of 3/31/200	ds plus apprecia	Divident			0/ nf C N							
	ds plus apprecia 3 Yrs	1 Yr.	6 Mos.	3 Mos.	% of Cap1)		ock 13,168,081 s		21 14	17	15 17 20 22	to Buy to Sell

SJW CORP. NYSE-S.	JW		REG PRI				RATIO 1.61		5%	43.00 High
RANKS	11.92 8.08	20.17 9.54	20.33 15.83	17.83 11.58	15.07 12.67	14.95 12.57	19.64 14.60	27.80 16.07	45.33 21.16	43.00 Hig 33.55 Lov
PERFORMANCE 3 Average	LEGE	NDS s Mov Avg		141 (har.						1 0
Technical 3 Average	Rel Pri	ce Strength	•							30
3	3-for-1 split	3/06		10.5						. 22.5
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BETA .70 (1.00 = Market)				1,000				• • • •		
· •	1111111111	-111		NAME OF THE PARTY				<del></del>		9
				77 . 646 . 177 27 . 18 . 18 . 18 . 18 . 18 . 18 . 18 . 1	٠.	***.		·		6
Inancial Strength B++				11.0						. 4
Price Stability 75				250					1. 1	1113
				ZSCREPARN CHARRES					. 1111	
Price Growth Persistence 80				TEMMUJE TEMPUJE						61
Earnings Predictability 70							نسيالار.	in Him	<del> , ,                                  </del>	VO.
		بالسيسالة		ىتىشتىنىل	ستستبيث	2002	2004	2005	2006	2007/2008
D VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003				200772000
	5.58	6.40	6.74	7.45	7.97	8.20	9,14	9.86	10.35	
SALES PER SH "CASH FLOW" PER SH	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38 1.19	1.41 <sup>A,B</sup> /1.49 <sup>C</sup>
EARNINGS PER SH	.76	.87	.58	.77	.78	.91	.8	1.12	.57	1.41 71.49
DIV'DS DECL'D PER SH	.39	.40	.41	.43	.46	3.41	7 31	2.83	3.87	
CAP'L SPENDING PER SH	1.81	1.77	1.89	2.63	2.06 8.40	9.11	1 31	10.72	12.48	
BOOK VALUE PER SH	7.53	7.88	7.90	8.17 18.27	18.27	18.27	8.27	18.27	18.28	
COMMON SHS OUTST'G (MILL)	19.01	18.27	18.27	18.27	17.3	15.4	19.6	19.7	23.5	27.8/26.3
AVG ANN'L PÆ RATIO	13.1	15.5	33.1 2.15	.95	.94	.88	1.04	1.04	1.27	
RELATIVE PIE RATIO	.68	3.0%	2.15	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	
AVG ANN'L DIV'D YIELD	3.9% 106.0	117.0	123.2	136.1	145.7	149.7	166.9	180.1	189.2	Bold figures
SALES (\$MILL)	36.0%	33.2%	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	57.0%	are consensus
OPERATING MARGIN DEPRECIATION (\$MILL)	9.6	10.2	11.9	13.2	14.0	15.2	18.5	19.7	21.3	earnings estimates
NET PROFIT (\$MILL)	14.4	15:9	10.7	14.0	14.2	16.	16.0 42.1%	20.7	22.2 40.8%	and, using the
INCOME TAX RATE	40.2%	35.9%	41.0%	34.5%	40.4%	36 2% 11.2%	9.6%	11.5%	11.7%	recent prices,
NET PROFIT MARGIN	13.6%	13.6%	8.7%	10.3%	9.8% d4.9	1 2,0	13.0	10.8	22.2	P/E ratios
WORKING CAP'L (\$MILL)	9.4	d3.0	d11.4	d3.8 110.0	110.0	1 19.6	143.6	145.3	163.6	
LONG-TERM DEBT (\$MILL)	90.0	90.0	90.0 144.3	149.4	153.5	66.4	184.7	195.9	228.2	
SHR. EQUITY (\$MILL)	143.2	143.9 B.2%	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	
RETURN ON TOTAL CAP'L	7.4% 10.1%	11.0%	7.4%	9.4%	9.3%	10.0%	8.7%	10.5%	9.7%	
RETURN ON SHR. EQUITY	4.9%	5.9%	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	
RETAINED TO COM EQ	T .	1	707	56%	59%	53%	58%	47%	46%	<u></u>
ALL DIV'DS TO NET PROF  ANo. of analysis changing earn. est in	last 14 days: 0	up 0 down, cons	ensus 5-year e	ernings growth 10	).0% per year. B	Jased upon on	e analyst's estima	ile. <sup>C</sup> Besed upoi	n one analysi's e	stimate.
		1					INDU	JSTRY: Wa	ter Utility	
ANNUAL RATES		ASSETS (\$1	,	804 2005 to 9 9.4	12/31/06 3.8					
		Cash Assets		10.9 9.4 14.6 18.4	20 5	BUSINES	SS: SJW C	orp. operat	es as the ho	lding company
of change (per share) 5 Yrs.	5.0%						no Wester Co	mpany (SJ	WC), SJW I	and Company
Sales 7.5%	5.0% 7.5%	Receivables inventory		.6 .6	.31	for San Jo	SE MAIEL CO		• • •	Land Company
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5%	7.5% 6.0%	inventory Other	-	2.3 3.3	33 9	Crystal C	hoice Water	Service LL	C, and SJW	/TX Water, Inc
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5%	7.5% 6.0% 6.5%	inventory	-			Crystal Cl	hoice Water	Service LL hases, store	.C, and SJW es, purifies,	TX Water, Inc distributes, and
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%	7.5% 6.0% 6.5% 16.5%	Other Current Asso	ets	2.3 3.3	33 9	Crystal Cl SJWC pro	hoice Water oduces, pure er. It prov	Service LL hases, store ides water	C, and SJW. s, purifies, service to	TX Water, Inc distributes, and customers in
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (	7.5% 6.0% 6.5% 16.5% \$mill.) Ful	inventory Other Current Assu	els	2.3 3.3 28.4 31.7 46.9 695.0	33 9 59 5	Crystal Cl SJWC pro sells wat Cupertino	hoice Water duces, purc er. It prov San Jose, (	Service LL hases, store ides water Campbell, M	C, and SJW, es, purifies, service to Monte Seren	TX Water, Inc distributes, and customers in o, Saratoga, the
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%	7.5% 6.0% 6.5% 16.5%	Inventory Other Current Asso Property, Pt. & Equip, Accum Depi	ets ant at cost 6 eciation 1	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2	33 <u>9</u> 59 5 776.2 234.5	Crystal Cl SJWC pro sells wat Cupertino	hoice Water oduces, purc er. It prov , San Jose, ( Los Gatos.	Service LL hases, store ides water Campbell, M and in th	C, and SJW es, purifies, service to Monte Seren ne county o	TX Water, Inc distributes, and customers in o, Saratoga, the of Santa Clara
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (\$ Year 1Q 2Q 3Q  12/31/04 31.1 45.6 52.3	7.5% 6.0% 6.5% 16.5% \$mill.) Ful 4Q Yea 37.9 166	Inventory Other Current Assu Property, Pt & Equip, Accum Depri Net Property	ent ant cost 6 eciation 1	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8	33 9 59 5 776.2 234.5 541.7	Crystal Cl SJWC pro- sells wat Cupertino Town of California	hoice Water oduces, pure er. It prov , San Jose, ( Los Gatos, , SJWC als	Service LL hases, store ides water Campbell, M , and in the oprovides	C, and SJW s, purifies, service to Monte Seren te county of nonregulate	TX Water, Inc distributes, and customers in o, Saratoga, the of Santa Clara ed water-related
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (\$ Year 10 20 30  12/23/04 31.1 45.6 52.3 12/23/05 33.3 44.8 58.5	7.5% 6.0% 6.5% 16.5% \$mill.) Ful 4Q Yea 37.9 166 43.5 180	Inventory Other Current Assu Property, Plant & Equip, Accum Dept Net Property Other	ent ant cost 6 eciation 1	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8 67.0 71.2	33 9 59 5 776.2 234.5 541.7 104.7	Crystal Cl SJWC pro- sells wat Cupertino Town of California	hoice Water oduces, pure er. It prov , San Jose, ( Los Gatos, . SJWC als	Service LL chases, store ides water Campbell, M , and in the o provides	C, and SJW es, purifies, service to Monte Seren ne county of nonregulate n operation	TX Water, Inc distributes, and customers in o, Saratoga, the of Santa Clara d water-relater s, billings, and
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Book Value 7.0%  Fiscal 10 20 30 12/23/104 31.1 45 6 52 3 12/23/105 33.3 44 8 58 5 12/23/106 33.7 47.9 63.1	7.5% 6.0% 6.5% 16.5% \$mill.) Ful 4Q Yea 37.9 166 43.5 180	Inventory Other Current Assu Property, Pt & Equip, Accum Depri Net Property	ent ant cost 6 eciation 1	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8	33 9 59 5 776.2 234.5 541.7	Crystal Cl SJWC pro- sells wat Cupertino Town of California services, cash rem	hoice Water oduces, purce er. It prov , San Jose, ( Los Gatos, . SJWC als including water	Service LL hases, store ides water Campbell, M , and in the o provides vater systemices. SJW	C, and SJW es, purifies, service to Monte Seren ne county o nonregulate n operation Land own	TX Water, Inc distributes, and customers in o, Saratoga, the of Santa Clara di water-relater s, billings, and s and operate
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (1 1Q 2Q 3Q 12/31/04 31.1 45.6 52.3 12/31/05 33.3 44.8 58.5 12/31/06 33.7 47.9 63.1 12/31/07	7.5% 6.0% 6.5% 16.5% \$mill.) Ful 4Q Yea 37.9 166. 43.5 180 44.5 189.	Inventory Other Current Assi Property, Pla Equip, Accum Depr Net Property Other Total Assets Liabilities	ant at cost 6 eciation 1 4	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8 67.0 71.2 587.7	33 9 59 5 776.2 234.5 541.7 104.7 705.9	Crystal Cl SJWC pro- sells wat Cupertino Town of California services, cash rem- parking fi	noice Water oduces, pure er. It prov , San Jose, ( Los Gatos, . SJWC als including w ittance serv	Service LL hases, store ides water Campbell, M , and in th o provides vater syster rices. SJW San Jose, C	C, and SJW es, purifies, service to Monte Seren he county o nonregulate n operation Land own California, a	TX Water, Inc distributes, and coustomers in o, Saratoga, the of Santa Clara of water-related s, billings, and s and operate s well as own
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Dividends 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (1 10 20 30 12/31/04 31.1 45.6 52.3 12/31/05 33.3 44.8 58.5 12/31/07 33.7 47.9 63.1 12/31/07  Fiscal EARNINGS PER SH/	7.5% 6.0% 6.5% 16.5% \$mili.) Ful 4Q Yea 37.9 166. 43.5 189 44.5 189	Inventory Other Current Assi Property, Pi Equip, Accum Depr Net Property Other Total Assets Liabilities Accis Payat	ant at cost 6 eciation 1 4	2.3 3.3 28.4 31.7 46.9 695.0 99.1 210.2 56.8 484.8 67.0 71.2 587.7 .9 5.1	33 9 59 5 776.2 234.5 541.7 104.7 705.9	Crystal Cl SJWC pro- sells wat Cupertino Town of Californie services, cash rem- parking f	noice Water oduces, purcer. It prov , San Jose, ( Los Gatos, . SJWC als including w actilities in Sal buildings	Service LL hases, store ides water Campbell, M , and in the o provides vater syster rices. SJW San Jose, C	C, and SJW es, purifies, service to Monte Seren e county c nonregulate n operation Land own California, a undeveloped	TX Water, Inc distributes, and constormers in o, Saratoga, th of Santa Clara dd water-related s, billings, and s and operate s well as own d land primaril
Sales 7.5% "Cash Flow" 9.5% Earnings 7.5% Downloads 5.5% Book Value 7.0%  Fiscal QUARTERLY SALES (\$10 20 30 12/31/04 31.1 45.6 52.3 12/31/05 33.3 44.8 58.5 12/31/06 33.7 47.9 63.1 12/31/07  Fiscal EARNINGS PER SH/Year 10 20 30	7.5% 6.0% 6.5% 16.5% 16.5% 16.5% 16.5% 16.5% 16.5% 16.5% 16.5% 16.6% 16.0% 16.	inventory Other Current Assir Property, Pk & Equip, Accum Depr Net Property Other Total Assets Liabilities Accis Payat	ant at cost 6 eciation 1 4	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8 67.0 71.2 52.2 587.7	33 9 59 5 776.2 234.5 541.7 104.7 705.9	Crystal C SJWC pro- sells wat Cupertino Town of California services, cash rem parking frommercian the Sa	noice Water oduces, purcer. It prov., San Jose, C. Los Gatos, L. SJWC als including wittance servacilities in Jose Metano	Service LI. shases, store ides water Campbell, M. and in the oprovides vater syster ices. SJW San Jose, C. and other copolitan ar	C, and SJW es, purifies, service to Monte Seren he county of nonregulate noperation Land own California, a handeveloped hea, some p	TX Water, Inc. distributes, and customers in o, Saratoga, the of Santa Clara ed water-relate s, billings, and s and operate s well as own d land primaril roperties in th
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Sales 7.5% Cash Flow 9.5% Cash Flow 9.5% Book Value 7.5% Book	7.5% 6.0% 6.5% 16.5% 16.5% 16.5% 18.0 40.5 18.0 44.5 18.0 44.5 18.0 44.5 18.0 18.1 13.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 22.1 1.1 25.0 12.8 15.1 13.4 1.5 1.1 1.5 10.0 15.0 16.0 16.0 16.0 16.0 16.0 16.0 16.0 16	Inventory Other Current Assi Property, Pit Actum Dept Net Property Other Total Assets Liabilities Other Current Liat Debt Oue Total Debt Total Debt Lian Debt Sind Including ( Leases, Un Pension Li Pid Stock N	ant at cost 6 eciation 1 4 5 5 (\$mill.) sle  M DEBT AND 31/06 5 mill. 3a,5 mill. ap. Leases N capitalized At ability \$26 3 m one	2.3 3.3 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8 67.0 71.2 52.2 587.7 9 5.1 .3 3 14.2 15.5 15.4 20.9  EQUITY  Due In 5 Yrs one (4' nual rentals Ne	33 9 59 5 776.2 234.5 541.7 104.7 705.9 7.3 16.0 13.9 37 2	Crystal C SJWC pro- sells wat Cupertino Town of Californie services, cash rem parking f commerci in the Sa states of I partnersh Crystal ( purificati Drew Gil Street, Sa http://ww	hoice Water duces, pure er. It prov er. It prov Los Gatos, SIWC als including water acilities in Sal buildings in Jose Metrorida, Texa ip interest in Choice sells on equipment of the Choice sells on equipment of the Choice sells on the Choice sel	Service LI chases, store ides water Campbell, M , and in the oprovides vater syster rices. SJW San Jose, C and other ropolitan an as, and Con in 444 Wes and rent ent. Has 3 CA. Addre 95113. Tel. Divider  Divider	C, and SJW, 25, purifies, service to Monte Serence county of nonregulate no operation Land own California, a nundeveloped ea, some procedure, and the service of the servic	TX Water, Inc distributes, and o customers in o, Saratoga, the f Santa Claradd water-relaters, billings, and s and operate s well as own d land primarily roperties in the da 70% limite ara Street, L.F. Inditioning and est. Chairman est. Santa Clar-7800. Internet
Sales 7.5% "Cash Flow" 9.5% "Cash Flow" 9.5% Book Value 7.5%	7.5% 6.0% 6.5% 16.5% 16.5% 18.9 ARE 4Q Yes 1.13 1.1 22 1.1 22 1.1 22 1.1 25 PAID FU 4Q Yes 1.28 .5 1.34 .5 1.41 .5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5	Inventory Other Current Assi Property, Pit Actum Dept Net Property Other Total Assets Liabilities Other Current Liat Debt Oue Total Debt Total Debt Lian Debt Sind Including ( Leases, Un Pension Li Pid Stock N	ant at cost 6 eciation 1 , 4 , 5 , 5 (\$mill.) ele  M DEBT AND 3179.6 mill. 53.6 mill. 53.6 mill. 5a.b. Leases N capitalized Ai ability \$263 m	2.3 3.9 28.4 31.7 46.9 695.0 90.1 210.2 56.8 484.8 67.0 71.2 587.7 9 5.1 3 3 3 14.2 15.5 15.4 20.9  EQUITY  Due In 5 Yrs one (4' nuual rentals Ne muual rentals Ne	33 9 59 5 776.2 234.5 541.7 104.7 705.9 7.3 16.0 13.9 37 2	Crystal C SJWC pro- sells wat Cupertino Town of Californie services, cash rem parking f commerci in the Sa states of I partnersh Crystal C purificati Drew Gil Street, Sa http://www	noice Water duces, purcer. It prov er. It prov Los Gatos, Los Gato	Service LI. chases, store ides water Campbell, N. cand in the oprovides vater syster vices. SJW composition at as, and Con in 444 Wes is and rent int. Has 3 CA. Addre 95113. Tel. om.  April 27,	C, and SJW, 2s, purifies, service to Monte Seren e county of nonregulate no operation Land own Laifornia, a nundeveloped, as Santa Clist Water co 57 employess: 374 W.: (408) 279	TX Water, Inc distributes, and o customers in o, Saratoga, the f Santa Claradd water-relate, s, billings, and s and operate s well as own I land primarily roperties in the da 70% limite ara Street, L.I anditioning and est. Chairman est. Santa Clara-7800. Internet

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YORK WATER CO	) NDO-YO	RW	RE( PR	CENT 17.8	32 TRAILING	30.7 RE	LATIVE 1.5(		.6%	
RANKS	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			10.22 5.67	13.45 8.20	13.49 9.33	14.03 11.00	17.87 11.67	20.99 15.33	18.15 High 16.12 Low
PERFORMANCE 3 Average		NDS				١			1 111	18
Technical 3 Average	Rel Pr	ice Strength		2011 A				11.1111	111111111111111111111111111111111111111	13
3	2-for-1 split 3-for-2 split	9/06		Trees,	11111111	4111111111	1,1		[	a
BALLIT 5	Spaged alea na	dicates rocession		1790	· · · · · · · · · · · · · · · · · · ·	<del> </del>				••
BETA .55 (1.00 = Market)				12.0						5
Financial Strength B+										3
manera, escargar				7 at						2
rice diability					1		1			
Price Growth Persistence 50				- Participant and				111111111	1 1	20 VOI
Earnings Predictability 85				24.7H						(thou
O VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
REVENUES PER SH	-			2.05 .59	2.05 .57	2.17	2.18	2.58 .79	.77	
"CASH FLOW" PER SH EARNINGS PER SH	_		-	.43	.40	.47	.49	.56	.58	.63 A.B/.69 C
DIV'D DECL'D PER SH		ļ <del>-</del>		.34	.35	1.07	2.50	1.69	1.85	
CAP'L SPENDING PER SH BOOK VALUE PER SH				3.79	3.90	4.03	4.65	4.85 10.40	5.84 11.20	
COMMON SHS OUTST'G (MILL)	-	-		9.46 17.9	9.55 26.9	9.'3 24 5	10.33 25.7	26.3	31.2	28.3/25.8
AVG ANN'L PIE RATIO RELATIVE PIE RATIO	_	_		.92	1.47	1 40	1.36	1.39 2.9%	1.68 2.5%	
AVG ANN'L DIV'D YIELD		<u> </u>	18.5	19.4	3.3% 19.6	3.2%	22.5	26.8	28.7	Bold figures
REVENUES (\$MILL) NET PROFIT (\$MILL)			3.8	4.0	3.8	4.4	4.8	5.8 36.7%	6.1	are consensus earnings
INCOME TAX RATE	-	-	35.7%	35.8% 2.2%	34.9% 3.7%	34.8%	36.7%		7.2%	estimates
AFUDC % TO NET PROFIT LONG-TERM DEBT RATIO	-	1.2	50.2%	47.7%	46.7%	43.4%	42.5%	44.1%	48.3% 51.7%	and, using the recent prices,
COMMON EQUITY RATIO			49.8% 65.2	52.3% 68.6	53.3% 69.9	56.6% 69.0	57.5% 83.6	55.9% 90.3	126.5	P/E ratios.
TOTAL CAPITAL (\$MILL) NET PLANT (\$MILL)	-		97.0	102.3	106.7	116.5	140.0	155.3	174.4	
RETURN ON TOTAL CAP'L	-	-	7.9% 11.6%	7.9% 11.2%	7.4% 10.2%	8.5%	7.6% 10.0%	8.4% 11.6%	9.3%	
RETURN ON SHR. EQUITY RETURN ON COM EQUITY	-	Ξ.	11.6%	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	
RETAINED TO COM EQ	-	-	2.5% 78%	2.5% 78%	1.3' 6 88%	2.6% 77%	2:1% 79%	3.0% 74%	2.2% 77%	
ALL DIV'DS TO NET PROF  ANo. of analysts changing earn, est in	Lect 14 days: 0	up, 0 down, con:	sensus 5-year ea	mings growth B	0% per yer.r. B	Besed upon 3 an	alysts' estimates	CBased upon 2	analysis' estima	les
ANNUAL RATES		ASSETS (\$1		DD4 20D5	12/31/06		INDU	JSTRY: Wa	ater Utility	
of change (per share) 5 Yrs.		Cash Assets	,,	.2 .0	.0 4.8	BUSINES	S: York	Water Con	npany enga	ges in the im-
Revenues 3.5% "Cash Flow" 4.5%	-0.5% -2.5%	Receivables Inventory (A		.7 .8	.8 }	nounding.	purificatio	n, and dist	tribution of	water in York
Earnings 4.5% Dividends -3.0%	3.5% 7.0%	Other Current Ass	ets.	<u>.4</u> <u>.5</u> 5.0	- <u>1.1</u> 5.7	County an	d Adams C	ounty, Peni	nsylvania. II etrial and o	supplies water ther customers
Book Value 6.0%	20.5%					The comp	any has two	o res <b>e</b> rvoir:	s, Lake Wil	liams and Lake
Fiscal QUARTERLY SALES (	\$mill.) Ful 4Q Yea	& Equip,	at cost 18	54.3 182.4 24.3 27.1	202.7 28.3	Redman	which tops	ther hold	approximat	ely 2.2 billior
Year 1Q 2Q 3Q 12/31/04 5.3 5.5 5.6	6.1 22	→ Accum Deb	y 14	10.0 155.3	174.4	gallons of	i water. It a nna River to	aiso nas a Lake Redi	nan that pro	peline from the ovides access to
12/31/05 6.2 6.7 7.2	6.7 26. 7.4 28.			11.1 <u>11.9</u> 172.3	15.0	an additio	onal supply	of water.	The comp	any serves 34
12/31/06 6.6 7.0 7.7 12/31/07	1.4	1				municipal	ities in You	k County	and four m	unicipalities ir ), & President
Fiscal EARNINGS PER SH			ble	1.8 2.6	1.6	Jeffrey S	Osman, I	nc.: PA. A	Address: 13	0 East Marke
Year 1Q 2Q 3Q	12 4	- 000		16.3 19.3 3.1 <u>2.8</u>	1 2 3.1	Street, Yo	ork, PA 17	401. Tel.:	(717) 845-	3601. Internet
12/31/03 .08 .11 16 12/31/04 .12 .11 12	.14 .49	Current Lial	o - :	21.2 24.7	59	http://ww	w.yorkwatei	com.		
12/31/05 .12 .14 .17	.13 .5									
12/31/06 .12 .14 .17 12/31/07 .13 .17 .20		LONG-TER as of 12	M DEBT AND	EQUITY						
Cal- QUARTERLY DIVIDENT		#		Due in 5 Yrs	S18 D roill					
endar 1Q 2Q 3Q	4Q Ye	LT Debt \$6	1.1 mill.		. 5100 1000					, 7
2004 .097 .097 .097 2005 104 .104 104	.104 .4	2	Cap. Leases \$1	(40	3% of Cap'l)					<i>A</i> .Z
	.112 4	Leases, Ut	scapitalized An	nual rentals No				April 27,	2007	
2006 112 112 112 2007 118 118					- # :- POE \$					
2007 .118 .118	IONS	Pension Li	ability \$5 9 mil			TOTAL S	HAREHOLE	DER RETUI	RN	
	6 4Q'06	ned the ab A			d Paid None	TOTAL S		Dividen	ids plus appreci	
2007 .118 .118  INSTITUTIONAL DECIS		Pfd Stock N		Pid Div'		3 Mos.	6 Mos. -9.41%	DER RETUI	3 Yrs	

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<b>OUTHWEST W</b>	ATER	NDQ	-SWWC	RE	CENT			29.	Medi	an: 19.0 /	RELATIVE PIE RATI	U 1.J	3 PIND	1.7	<b>%</b>			Day
ELINESS 3 Raised 3/30/07	High: Low:	3.7 2.0	5.0 2.6	5.6 3.5	9.2 3.6	8.3 5.1	10.2 6.9	12.4 7.6	71.2 8 1	14.3 10.3	15.2 9.0	19 1 16.8	15.3 12.1					Range  2012
ETY 3 New 10/28/05 HNICAL 3 Lowered 2/16/07	LEGEN 2.50 divi	DS 3 x Divides ded by Int	nds p sh eresi Rata Strangth	-			that Wey											40 32
90 (1.00 = Market)	6-lor-5 spli 5-lor-4 spli	1 12/96	Strength				3.0			-lor-3							-	24
2010-12 PROJECTIONS Ann'i Total Price Gain Return	3-tor 2 spli	k 10999										لِسِ الل	, •					16
Price Gain Return 18 (+25%) 8% 12 (-15%) -1%			les recessi	on E	3-10	1-2	or 4		المتلللها	11111111	ippini Tippini	- 1						jō
ider Decisions						1,11,11,1	1134									<del> </del>	<u> </u>	-6
y 0010000000 m 012112001				البالس	世:			-	```	**			<del> </del> -		% 10	1 T. RETUF		-4
1 1 3 1 2 2 1 1 1 titutional Decisions	1												ļ		i yr.	THIS STOCK -8.0	VL ARITH IHDEX 9.9	- 1
202006 302006 402006 uy 33 30 40 8 32 20 16	shares	15 - 10 - 5 -			8.1		非典学能で 単句開発す			dinila					3 yr. 5 yr.	16.2 42.9	42 9 75.8	F
000) 8415 9034 10780 11 1992 1993 1994	L	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 9.60	10.00		UE LINE P es per sh	UB., INC.	10-12
34 3.77 4.03 4.20	1	5.31 46	5.61 .53	5.63 .59	6.16 .65	7 49 .76	8.15 87	9.12	10.70 .91	9.23 .6*	9.10	9.42	.95	1.05	"Cash F	low" per		1.35
02 19 08 09	12	.15	21	.25 .10	.31	.38 .13	.42	.39	.16	. 18	.34	.40	.45	.50 .26		s per sh / cPd per s		.70 .3 <b>4</b>
.18 .18 .14 .08 39 .42 60 .72		.09 .95	.09 .74	.79	.53	55	1.05	1.78 4.27	1.14 4.90	1 26 F 17	1.66 6.49	1.87 6.98	1.90 7.60	1.95 8.45		ending p lue per si		2.05 10.50
2.41 2.42 2.31 2.31 1.50 11.80 11.97 12.13		2.40 12.45	2.52 12.65	2.70 12.83	3.05 13.12	3.44 13.99	3.84 14.17	14.35	16.17	2 1.36	22.33	23.80	25.00	26.00	Commo	n Shs Ou 'I PIE Ra	ist'g <sup>c</sup>	30.00 21.0
NMF 14.5 35.8 22.3	14.6	16.5 1.03	16.9 .97	17.2 .89	19.6 1.12	17.0	19.8	24.8 1.35	21.2 1.21	51.6 2.73	35.5 1.89	34.8 1 88	Value estin		Relative	P/E Ratio	)	1.40
MF .88 2.11 1.46 .5% 6.6% 4.7% 4.2%	i	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5% 188.0	1.6%	1.5%	240	260		ı'l Div'd Y es (\$mill)	1810	2.3% 330
PITAL STRUCTURE as of 12, tal Debt \$130.0 mill. Due in 5	Yrs \$41.0	mill.	71.0 2.6	72.2 3.4	80.9 4.2	104.7 5.4	115.5 6.2	6.0	7.2	4.5	7.3	9.4	12.0	14.0 36.0%	Net Prof			22.0 35.5%
Debt \$128.6 mill. LT Interestal interest coverage: 2 7x)	st \$8.0 mi (44% o	1).	41.6%	39.5%	39.0%	37.0%	36.0% 14.4%	34.9% 3.2%	35.9%	36 1% 11.0%	36.0% 9.5%	35.0% 12.5%	35.0% 11.5%	12.0%	AFUDC	% to Net		12.5%
ises, Uncapitalized: Annual r	entals \$6.7	mill	47.9%	48.7% 50.5%	45.2% 54.1%	48.8% 50.7%	51.4% 48.2%	56.7% 42.9%	47.97. 51.8°.	47.9% 52.0%	44.7% 55.1%	43.6% 56.4%	44.0% 56.0%			rm Debt i n Equity l		43.5% 56.5%
sion Liability None			51.3% 62.2	68 5	73.9	95.0	113.0	142.8 203.9	152 8 21! 5	242 D 302 6	262.9 344.8	295.1 389.6	340 450	380 510	Total Ca Net Plan	pitał (\$mi it (\$mill)	H)	560 750
	d S 024 mi	11.	102.1 6.8%	109.2 7.1%	113.7 7.6%	157.8 7.6%	171.1 7.6%	5.8%	6.5 %	3.1%	4.1%	4.6%	4.5%	5.0%	Return o	on Total C		5.0% 7.0%
mmon Stock 23,802,000 shs. RKET CAP: \$350 million (Sr	nall Can)		8.0% 8.1%	9.5% 9.6%	10.3%	11.1%	11.4%	9.7% 9.7%	9.1%	3.6% 3.6%	5.0%	5.6%	6.0%	6.0%	Return	on Com E	quity	7.0%
RRENT POSITION 2004	2005 1	2/31/06	4.5% 45%	6.0% 38%	7.0% 33%	7.8%	7.8% 32%	6.3% 36%	36%	.8% 78%	2.1% 58%	2.6% 53%	3.0% 51%	3.0% 51%		l to Com Is to Net i		3.5% 54%
(MILL) ash Assets 1.9 acceivables 23.9	3.0 26.5	4.3 27.5	DUCN	EEE, Ca	L	Water Co	mnaby i	provides a	a broad a	ange of	public	water ut Services	ilities in	California nostly m	a, New	Mexico, ce work	Oklahor on a	na, and contract
ventory (Avg Cst) 1.9 her 17.6	18.2 47.7	16.5 48.3			tantian :	nd tracti	ment tili	abment i	i and co	nacioni.	hasis	Off. & d	r. own 6	.3% of (	com. shs	.; Stein	Roe Im	vestment
rrent Assets 45.3 cts Payable 12.3 bt Due 3.4	10.0 9.5	12.7 1.4			water au	4 of two	arnins.	ement, a Utility (38	M DIZU	o ieve	DE Ad	dr.: One s, CA 90	Wilshire !	Buildina.	624 S. G	rand Ave	. Ste. 2	900, Los
bt Due 3.4 ner 20.0 rrent Liab. 35.7	21.1 40.6	21.7 35.8	Con	+ hymn	ct V	ater	Com	nd manag papy	is	per-	recc	in	Ala	hama	. B	y p	urch	asing
NUAL RATES Past F	ast Est'e		farm	nina	flagg	The	Utalat	y Gro	oup, v	micn	nia a	nesses area,	South	west `	Water	shou.	ld be	able
ventes 8.5%	Yrs. 10 8.5% 3.5%	2.0% 8.0%	72206	COT	tinne	s to i	make	sizab	ie boi	rom-	to re	duce i	its der	pender	ace on	thes	tate's	reg-
nings 13.5% idends 6.0% 1	1.5% <i>1</i> 0.0%	1.0% 9.5%	- Au	hann	about	t 15%	in 20	from	incp (	ı tne	Cont	tributi not b	ons fi	nm u	$\mathbf{pcomi}$	ng ac	guisi	tions
k Value 9.5% 1	S (\$ mill.)	8.5% Full	stre	ngth	was d aced	ue to water	warm r cons	ier ter sumpt	npera ion. I	lates	thes	e tran	sactio	ns are	final	ized.		
lar Mar.31 Jun. 30 Sep. 3	30 Dec. 31	Year	also	Pagr	thai entsi	iks to n Cal	tavo iforni:	rable a and	regui Texas	. We	brit	expe	erate.	adv	ances	for	the	next
05 45.2 51.3 54	.7 52.6	203.	21 avne	act th	mon a	nanv	to file	for h 007,	igner	rates	few estir	year	s. We	are nged	for 2	ig our 007, a	eari	nngs intro-
55.0 60.0 65	5.0 60.0	0 240	1	forth	GT			imp			duci	ng an	estii 2008	nate In ade	of \$0 lition	.50 pa to im	er di prove	luted ed op-
EARNINGS PER SH	ARE A	Full	1	Pos	anne	at th	us se	gment	. cont	mues	erati	ions, ructur	resu	ts s	nould	ben	SDr	rom
idar Mar.31 Jun. 30 Sep. 3	30 Dec. 3	1 Year	l tom	OTE ST	nd evi	rande	d serv	tion of	ering	S. Al-	to co	msolic	late se	everal	subsi	diarie	s in	order
005 d.01 .15 .16 006 .03 .08 .16	.06	.34	thou	igh tl	ne ope	eratin; a bit	g mai t nari	rgin a row in	t this	past,	who	rim le re, th	ere W	ill nro	habiv	be a	reva	ew of
007 .05 .14 .1	5 .10	.45	1	Stabil	itu ic	etart	ing t	o imp tract	rove.	1008	The	emplo se ne	antra!	lv ra	ınked	sna	res ,	have
al- QUARTERLY DIVIDENT	S PAID B	Full	low	or low	els of	spend	ine.				belo	w-av	erage ext 3	to 5	recia vear	tion s. The	poter com	ntiai ipany
ndar Mar.31 Jun.30 Sep.:	30 Dec.3 042 046		The	e con	npany is. In	y con Mar	tinue ch. S	es to	rest v	vater	raise	ed its	quart	erlv d	ividen	d by	about	12%
004 .046 .046	046 050 048 052	15	ann	ounce	d th	at it	had	purc	hased te v	nve vater	sne's	he De s divid	lend v	rield i	s still	not t	00 a	ttrac-
2006 052 052	052 058		faci	lities	locate	ni he	north	iern N	115515	sippi.	tive,	despi m Ros	te the	consi	derab	le inc	rease	2007
Diluted earnings. Excludes	ne ne ne	dne l An				some	acqu	sisition \$1.51/sl		hrog.	2 2 6 6 6 6		Co			al Streng		B 60
Diluted earnings, Excludes ins (losses): '00, (3¢); '01, (5¢ (¢), Next earnings report due	J, UZ, 14,	03, [ [0	In million Includes			olits 106: \$36 (	) million,						Pri	ce Grow	ce Stabil th Persis redictabl	tence		75 55
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# Southland Utilities, Inc. Indicated Common Equity Cost Rate Through Use of a Risk Premium Model Using an Adjusted Total Market Approach

Line		Proxy Group of Eight AUS Utility Reports Water	Proxy Group of Four Value Line (Standard Edition)
No.		Companies	Water Companies
1	Prospective Yield on Aaa Rated		
	Corporate Bonds (1)	61%	6.1 %
2	Adjustment to Reflect Yield Spread		•
	Between Aaa Rated Corporate		
	Bonds and A Rated Public	0.5.(0)	0.5.(2)
	Utility Bonds	0.5 (2)	0.5 (2)
3	Adjusted Prospective Yield on A Rated		
	Public Utility Bonds	66 %	6.6 %
4	Adjustment to Reflect Bond		
	Rating Difference of Proxy Group	0.0 (3)	0.0 (3)
5	Adjusted Prospective Bond Yield	6.6	6 6
		4.0	4.4
6	Equity Risk Premium (4)	4.2	4.4
	Di I Dani an Dani and Commune		
7	Risk Premium Derived Common Equity Cost Rate	10.8 %	11.0 %
	Equity Cool Nate		

- Notes: (1) Derived in Note (3) on page 6 of this Schedule
  - (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.53%, rounded to 0.5% from page 4 of this Schedule.
  - (3) No adjustment necessary as the average Moody's bond rating of the proxy group is A2.
  - (4) From page 5 of this Schedule.

### <u>Southland Utilities, Inc.</u> Comparison of Bond Ratings and Business Profile for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

		lune 2007 Moody's ond Rating			2007 & Poor's Rating		Standard & Poor's Business Position / Profile (2)
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	Credit <u>Rating</u>	Numerical Weighting (1)	
Proxy Group of Eight AUS Utility Reports Water Companies			Α-	7	Α-	7	3.0
American States Water Co. (3)	A2	6	AA-	4	A+	5	2.0
Aqua America, Inc. (4)	NR NR		NR		NR		• •
Artesian Resources Corp. (5)	NK A2	6	NR		A+	5	3.0
California Water Service Group (6)	NR	•	AAA	1	Α	6	3.0
Connecticut Water Service Inc. (7)	NR	••	Α	6	Α-	7	3.0
Middlesex Water Company	NR	• •	NR		NR	• •	
SJW Corp. (8) York Water Company	NR		A		NR		2.0
Average	A2	6.0	<u>A+</u>	5.0	<u> </u>	6.0	2.7
Proxy Group of Four Value Line (Standard Edition) Water				_		7	3,0
American States Water Co. (3)	A2	6	A-	7	Α-	5	2.0
Aqua America, Inc. (4)	NR		AA-	4	A+ A+	5 5	3.0
California Water Service Group (6)	A2	6	NR		NR	J	5.0
Southwest Water Company (9)	NR		NR		1417		2.7
Average	A2	6.0	A+ / A	5.5	A	5.7	4./

Notes: (1) From page 3 of this Schedule.

(2) From Standard & Poor's U.S. Issuer Ranking: U.S. Utility and Power Companies, Strongest to Weakest, June 22, 2007
 (3) Ratings and business profile are those of Golden State Water Company

- (4) Ratings and business profile are those of Aqua Pennsylvania, Inc.
  (5) Ratings and business are a composite of those of Artesian Water Company and Southwood Water Company.
  (6) Ratings and business profile are those of California Water Service Company.
- (7) Ratings and business position are those of The Connecticut Water Company
- (8) Ratings and business position are those of San Jose Water Company.
  (9) Ratings and business position are a composite of those of Hornsby Bend Utility Co., New Mexico Utilities, Inc., Suburban Water Systems, and Windermere Utility Co.

Source of Information:

Moody's Investors Service

Standard & Poor's Global Utilities Rating Service

Exhibit No. \_\_\_\_ Schedule PMA-10 Page 3 of 9

# Southland Utilities, Inc. Numerical Assignment for Moody's and Standard & Poor's Bond Ratings

Moody's Bond Rating	Numerical Bond Weighting	Standard & Poor's Bond Rating
Aaa	1	AAA
Aa1	2	AA+
Aa2	3	AA
Aa3	4	AA-
A1	5	A+
A2	6	A
A3	7	A-
Baa1	8	BBB+
Baa2	9	BBB
Baa3	10	BBB-
Ba1	11	8B+
Ba2	12	BB
Ba3	13	BB-

## Moody's Comparison of Interest Rate Trends for the Three Months Ending May 2007 (1)

					Spread - Co	rporate v. Public L	Itility Bonds	Spread - Publi	c Utility Bonds
	Corporate Bonds	i	Public Utility Bond	s	Aa (Pub. Util.) over	A (Pub. Util.) over Aaa	Baa (Pub. Utll.) over		
Months	Aaa Rated	Aa Rated	A Rated	Baa Rated	Aaa (Corp.)	(Corp.)	Aaa (Corp.)	A over Aa	Baa over A
March-07 April-07 May-07	5.30 % 5.47 5.47	5.66 % 5.83 5.86	5.85 % 5.97 5.99	6.10 % 6.24 6.23					
Average of Last 3 Months	5.41 %	5.78 %	5.94 %	6.19 %	0.37_%	0.53 %	0.78_%	0.16 %	0.25 %

Notes: (1) All yields are distributed yields.

Source of Information: Mergent Bond Record, June 2007, Vol. 74, No. 5

Exhibit No. \_\_\_\_ Schedule PMA-10 Page 5 of 9

# Southland Utilities, Inc. Judgment of Equity Risk Premium for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line No.		Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1.	Calculated equity risk premium based on the total market using the beta approach (1)	40%	4.4 %
2	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	4.4	4.4
3.	Average equity risk premium	4.2 %	4.4 %

- Notes: (1) From page 6 of this Schedule. (2) From page 8 of this Schedule.

# Southland Utilities, Inc. Derivation of Equity Risk Premium Based on the Total Market Approach Using the Beta for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line <u>No.</u>			Proxy Group of Eight AUS Utility Reports Water	Proxy Group of Four Value Line (Standard Edition) Water Companies
1		Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2006 (1)	123 %	12 3 %
2		Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2006 (2)	(6.1)	(6.1)
3		Historical Equity Risk Premium	6.2 %	6.2 %
4		Forecasted 3-5 year Total Annual Market Return (3)	98%	98%
5		Prospective Yield an Aaa Rated Corporate Bonds (4)	(6.1)	(6.1)
6		Forecasted Equity Risk Premium	3.7 %	3.7 %
7		Average of Historical and Forecasted Equity Risk Premium (5)	50%	50%
8		Adjusted Value Line Beta (6)	0.80	88.0
9		Beta Adjusted Equity Risk Premium	4.0 %	4.4 %
Notes:	(1)	From <u>Stocks Bonds Bills and Inflation - Market Results Momingstar, Inc.</u> , 2007 Chicago, IL.	for 1926-2006 - 2007 Yearbook \	aluation Edition,
	(2)	From Moody's Industrial Manual and Mergent Bond Rec	cord Monthly Update.	
	(3)	From page 3 of Schedule PMA-11.		
	(4)	Average forecast based upon six quarterly estimates of nearly 50 economists reported in Blue Chip Financial Foundation of Schedule). The estimates are detailed below	Aaa rated corporate bonds per to precasts dated July 1, 2007 (see	ne consensus of page 7 of this
		Third Quarter 2007 Fourth Quarter 2007 First Quarter 2008 Second Quarter 2008 Third Quarter 2008 Fourth Quarter 2008	5 9 % 6.0 6 1 6 1 6 1 6.2	
		Average	6.1 %	

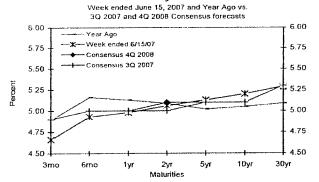
- (5) Average of the Historical Equity Risk Premium of 6.2% from Line No. 3 and the Forecasted Equity Risk Premium of 3.7% from Line No. 6 ((6.2% + 3.7%) / 2 = 4.95%, rounded to 5.0%
- (5) From page 9 of this Schedule.

### Consensus Forecasts Of U.S. Interest Rates And Key Assumptions<sup>1</sup>

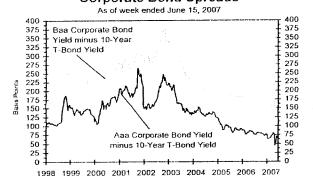
	History								Con	ensus	Foreca	sts-Qu	arterly	Avg.
	Av	erage For	Week En	ding	Ave	rage For N	Month	Latest Q	4Q	3Q	1Q	2Q	3Q	4Q
Interest Rates	<u>Jun 15</u>	June 8	Jun 1	May 25	May	Apr.	Mar.	20 2007*	2007	2007	2008	2008	2008	2008
Federal Funds Rate	5.26	5.24	5.28	5.24	5.25	5.25	5.26	5.25	5.2	5.2	5.2	5.1	5.1	5.1
Prime Rate	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.2	8.2	8.2	8.1	8.1	8.1
LIBOR, 3-mo.	5.36	5.36	5.36	5.36	5.35	5.35	5.35	5.34	5.4	5.4	5.3	5.3	5.3	5.2
Commercial Paper, 1-mo.	5.26	5.22	5.24	5.23	5.22	5.23	5.23	5.23	5.3	5.3	5.2	5.2	5.2	5.2
Treasury bill, 3-mo.	4.66	4.8	4.82	4.90	4.87	5.01	5.08	4.87	4.9	4.9	4.9	4.9	4.9	4.9
Treasury bill, 6-mo.	4.93	4.97	4.98	5.00	4.98	5.07	5.10	5.00	5.0	5.0	5.0	5.0	5.0	5.0
Treasury bill, 1 yr.	4.98	4.98	4.96	4.95	4.91	4.93	4.92	4.94	5.0	5.0	5.0	5.0	5.0	5.0
Treasury note, 2 yr.	5.06	4.99	4.92	4.84	4.77	4.67	4.57	4.82	5.0	5.1	5.1	5.0	5.1	5.1
Treasury note, 5 yr.	5.13	4.98	4.86	4.77	4.67	4.59	4.48	4.77	5.1	5.1	5.1	5.1	5.1	5.1
Treasury note, 10 yr.	5.20	5.02	4.90	4.84	4.75	4.69	4.56	4.85	5.1	5.2	5.2	5.2	5.3	5.3
Treasury note, 30 yr.	5.29	5.12	5.02	4.99	4.9	4.87	4.72	4.99	5.3	5.3	5.3	5.3	5.4	5.4
Corporate Aaa bond	5.89	5.67	5.58	5.55	5.47	5.47	5.30	5.57	5.9	6.0	6.1	6.1	6.1	6.2
Corporate Baa bond	6.79	6.62	6.51	6.47	6.39	6.39	6.27	6.50	6.8	6.9	7.0	7.0	7.1	7.1
State & Local bonds	4.64	4.54	4.41	4.38	4.31	4.26	4.15	4.39	4.7	4.7	4.8	4.8	4.8	4.8
Home mortgage rate	6.74	6.53	6.42	6.37	6.26	6.18	6.16	6.36	6.6	6.7	6.7	6.7	6.8	6.8
				History	y				Cons	ensus I	Forecas	sts-Qua	rterly	Avg.
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	4Q	3Q
Key Assumptions	2005	2005	<u>2006</u>	2006	2006	<u>2006</u>	2007	<u> 2007*</u>	2007	2007	2008	2008	2008	2008
Major Currency Index	84.7	85.8	84.9	82.2	81.7	81.6	81.9	79.3	79.0	78.6	78.3	78.0	77.9	78.0
Real GDP	4.2	1.8	5.6	2.6	2.0	2.5	0.6	3.1	2.6	2.7	2.9	2.9	2.9	3.0
GDP Price Index	3.3	3.3	3.3	3.3	1.9	1.7	4.0	3.1	2.3	2.2	2.4	2.2	2.2	2.1
Consumer Price Index	5.5	3.5	1,8	5.1	3.0	-2.0	3.8	5.2	2.6	2.1	2.5	2.5	2.4	2.2

Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H 15. LIBOR quotes available from The Wall Street Journal. Definitions reported here are same as those in FRSR H 15. Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H 10 and G 5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). \*Interest rate data for 2Q 2007 based on historical data through the week ended June 15th. Data for 2Q 2007 Major Currency Index also is based on data through week ended June 15th. Figures for 2Q 2007 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panel members this month.

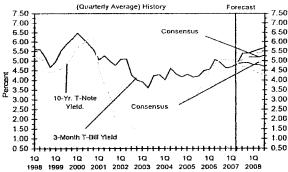
### U.S. Treasury Yield Curve



### Corporate Bond Spreads



### U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



### U.S. Treasury Yield Curve

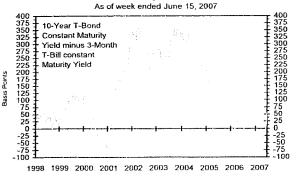


Exhibit No. \_\_\_\_ Schedule PMA-10 Page 8 of 9

# Southland Utilities, Inc. Derivation of Mean Equity Risk Premium Based on a Study Using Holding Period Returns of Public Utilities

			Over A Rated
			Public Utility Bonds
			AUS Consultants -
Line			Utility Services
No.			Study (1)
	-		<u>1</u>
Time Period			1928-2005
1.		Arithmetic Mean Holding Period	
		Returns (2):	
		Standard & Poor's Public	
		Utility Index	11.0 %
2.		Arithmetic Mean Yield on:	
		A Rated Public Utility Bonds	(6.6)
3.		Equity Risk Premium	4.4 %
Notes:	(1)	S&P Public Utility Index and Moody's Public U Yields 1928-2005, (US Consultants - Utility Se	
	(2)	Holding period returns are calculated based u (dividends and interest) plus the relative chan security over a one-year holding period.	pon income received ge in the market value of a

Exhibit No. \_\_\_\_ Schedule PMA-10 Page 9 of 9

# Southland Utilities, Inc. Value Line Adjusted Betas for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

	Value Line Adjusted Beta
Proxy Group of Eight AUS Utility Reports Water	
American States Water Co. Aqua America, Inc.	0.80 0.90 NA
Artesian Resources Corp. California Water Service Group Connecticut Water Service Inc.	0.90 0.90
Middlesex Water Company SJW Corp.	0.85 0.70
York Water Co. Average	0.55 0.80
Proxy Group of Four Value Line (Standard Edition) Water Companies	
American States Water Co. Aqua America, Inc. California Water Service Group	0.80 0.90 0.90 0.90
Southwest Water Company Average	0.88

NA = Not Available

Source of Information: <u>Value Line Investment Survey</u>, April 27, 2007
Standard Edition and Small and Mid-Cap Edition

Exhibit No. \_\_\_\_ Schedule PMA-11 Page 1 of 3

# Southland Utilities, Inc. of the Capital Asset Pricing Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line		Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1.	Traditional Capital Asset Pricing Model (1)	10 2 %	10.4 %
2.	Empirical Capital Asset Pricing Model (1)	10.2 %	10.6 %
3.	Conclusion	10.2 %	<u>10.5</u> %

Notes: (1) From page 2 of this Schedule.

## Southland Utilities, Inc. Indicated Common Equity Cost Rate Through Use of the Capital Asset Pricing Model

	of the Capital As	sset Pricing Model	
	1	2	<u>3</u>
	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 5.8% (1)	CAPM Result Including Risk-Free Rate of 5.3% (2)
	<u>.</u> -	Traditional Capital Asset Pricing Model (3)	
Proxy Group of Eight AUS Utility			
Reports Water Companies			
American States Water Co	0 80	46 %	99 %
Aqua America, Inc	0 90	5 2	10.5
Artesian Resources Corp	NA	NA	NA
California Water Service Group	0.90	5.2	10 5
Connecticut Water Service Inc	0.90	5.2	10 5
Middlesex Water Company	0 85	4.9	10 2 9.4
SJW Corp	0 70	4 1	
York Water Co.	0.55	3.2	8.5
Average	0.80	4.6 %	10.2 % (4)
(Standard Edition) Water Companies  American States Water Co.  Aqua America, Inc California Water Service Group Southwest Water Company  Average	0 80 0 90 0 90 0 90 0 90	4.6 % 5.2 5.2 5.2 5.1 %	9 9 % 10.5 10.5 10.5 10.4 % (4)
Proxy Group of Eight AUS Utility		Empirical Capital Asset Pricing Model (5)	
Reports Water Companies			10.2 %
American States Water Co	0 80	49 % 54	10.7
Aqua America, Inc.	0 90	NA	NA
Artesian Resources Corp	NA 0 90	5.4	10.7
California Water Service Group	0 90	5.4	107
Connecticut Water Service Inc.	0.85	5 1	10.4
Middlesex Water Company	0.70	4 5	9.8
SJW Corp.	0.55	3.8	9.1
York Water Co Average	0.80	4.9 %	10.2 % (4)
Proxy Group of Four Value Line		the second section of the second seco	
(Standard Edition) Water Companies		40.07	10.2 %
American States Water Co	0.80	49 % 54	10.2 %
Aqua America, Inc	0.90	5 4 5 4	10.7
California Water Service Group	0 90	5.4	10.7
Southwest Water Company	0.90		10.6 % (4)
	0.88	<u>5.3</u> %	10.0 /6 (4)

Southland Utilities, Inc.

Development of the Market Required Rate of Return on Common Equity Using the Capital Asset Pricing Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies Adjusted to Reflect a Forecasted RiskFree Rate and Market Return

### Notes

From the three previous month-end (Apr. '07 – Jun. '07), as well as a recently available (Jul. 13, 2007), Value Line Summary & Index, a forecasted 3-5 year total annual market return of 9.8% can be derived by averaging the 3-month and spot forecasted total 3-5 year total appreciation, converting it into an (1) annual market appreciation and adding the Value Line average forecasted annual dividend yield

The 3-5 year average total market appreciation of 37% produces a four-year average annual return of 8.19 % ( $(1.37^{25})$ -1). When the average annual forecasted dividend yield of 1.62% is added, a total average market return of 9.81%, rounded to 9.8% (1.62% + 8.19) is derived.

The 3-month and spot forecasted total market return of 9.8% minus the risk-free rate of 5.3% (developed in Note 2) is 4.5% (9.8% - 5.3%). The Ibbotson Associates calculated market premium of 7.1% for the period 1926-2006 results from a total market return of 12.3% less the average income return on long-term U.S. Government Securities of 5.2% (12.3% - 5.2% = 7.1%). This is then averaged with the 4.5% Value Line market premium resulting in a 5.8%, market premium. The 5.8% market premium is then multiplied by the beta in column 1 of page 2 of this Schedule.

Average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the (2) consensus of nearly 50 economists reported in the <u>Blue Chip Financial Forecasts</u> dated July 1, 2007 (see page 7 of Schedule PMA-10 ) The estimates are detailed below

	30-Year
	Treasury Note Yield
Third Quarter 2007	5.3%
Fourth Quarter 2007	5.3
First Quarter 2008	5.3
Second Quarter 2008	5.3
Third Quarter 2008	5.4
Fourth Quarter 2008	<u>5.4</u>
Average	5.3%

The traditional Capital Asset Pricing Model (CAPM) is applied using the following formula: (3)

$$R_S = R_F + \beta (R_M - R_F)$$

Where Rs = Return rate of common stock

 $R_F = Risk$  Free Rate  $\beta = Value$  Line Adjusted Beta  $R_M = Return$  on the market as a whole

- Includes only those indicated common equity cost rates which are above 8.2%, i.e., 200 basis points (4) above the prospective yield of 6 2% on A rated Moody's public utility bonds (page 1 of Schedule PMA-
- The empirical CAPM is applied using the following formula: (5)

$$R_S = R_F + .25 (R_M - R_F) + .75 \beta (R_M - R_F)$$

Where Rs = Return rate of common stock

 $R_F$  = Risk-Free Rate  $\beta$  = Value Line Adjusted Beta

R<sub>M</sub> = Return on the market as a whole

Source of Information:

Value Line Summary & Index Blue Chip Financial Forecasts, July 1, 2007 Value Line Investment Survey, April 27, 2007, Standard Edition and Small and Mid-Cap

Stocks, Bonds, Bills and Inflation – Market Results for 1926-2006 – Valuation Edition 2007 Yearbook, Morningstar, Inc., Chicago, IL

Southland Utilding Inc.
Comparable Emmings Analysis
for a Prexy Group of One Hundrod Forty-Two Non-Utility Companies Comparable to the

Printy Group of Einh) AUS Unity Reports Water Companies (1)
Rate of Rollins on Book Common Equity, Net Worth or Pariners' Capital Standard 5-Year Projected (3) Student's 5-year Average (2) Standard Error Prexy Group of One Hundred Forty-Two Non-Utility Sludeni's of the Covation Companies Comparable to the Proxy Group of Eight Percent T-Statistic Percent T-Statistic of Beto 2002 2004 2006 Bela Regression AUS Utility Reports Water Companies (1) Beta 9.7 % 13.0 % (0.64) 9.5 % 27.1 (0.91) 121 5.2 9.5 6.9 27.3 0.60 3,1680 0.0585 0.80 ABM Industries Inc. 0.90 22 O 0.84 2.9490 0.0926 30.4 26.6 24.6 Abbell Labs. Advance Avio Parts 20.0 0.51 26.3 24.1 3,1120 20.7 25.1 25.5 13.7 22.4 13.7 0.90 0.05 0.85 0.60 1.00 0.90 0.85 0.90 0.84 0.91 0.74 3.5672 12.4 (0.63) 1.08 15.0 (0.31) 0.16 3.2330 2.8627 3.3121 0.1015 11.7 11.6 Airgas inc. Allergan inc. 24.5 14.7 14.9 30.4 33.3 14,4 79.0 42.4 10.0 12.0 8.3 11.2 14.4 19.1 21.6 31.7 6.2 13.3 10.3 20.1 22.3 36.5 11.4 16.1 22.2 11.3 17.6 (0.28) 21.5 15.5 15 8 0.75 0.68 0.97 0.79 0.1040 12.6 Allied Capital Corp. Amer. Cap, Strategres 33.3 10.8 7.4 8.3 22.3 24.9 24.7 25.8 (0,071 9.8 11.9 7.4 3.0704 9.5 12.0 14.0 11.0 (1.14) (1.21) 3.2385 3.4158 3.2216 11.2 10.6 11.8 11.5 0,1017 7.8 7.5 11.6 18.7 Amer. Greatings (0.02) (0.80) 10.8 10.5 0.70 (0.48) AmerisourceBergen 0,1012 17.2 Anadarka Patralaum 20.4 19.0 0.05 3.3705 3.2244 3.5143 3.4393 19.3 18.0 18.0 13.4 10.7 14.2 23.0 0.90 0.60 0.1059 18 0 12.0 12.5 Apache Corp. 21.1 29.4 6.8 0.1013 22.3 28.5 21.5 Applebee's Ini'l (0.94) (0.71) 25.6 (0.80) 0.85 0.85 0.75 0.90 0.85 0.53 0.72 0.57 0.1104 Apria Healthcare 9.4 11.6 12.4 22.4 10.9 P.7 12.5 0.1050 Archer Daniels Midfd 14.0 16.5 (0.48) 3.2722 3.5368 0.1028 13.1 13.0 Arrew Int7 13.5 25.3 24.8 35.7 6.6 18.0 (0.07) (0.63) 0.40 0.44 10.8 Barnes Graup 0.64 22.0 0.84 0.75 3,3062 0.1038 22.9 22.5 20.8 20.4 43.6 13,4 17.0 21.2 12.1 18.9 22.6 11,7 20.0 14.8 7.5 Bod Bath & Bayond Blomet 24.2 41.8 22.8 0.75 0.95 0.85 0.90 3.0321 0.61 37.2 (4) 1.03 21.0 12.0 23.0 15.5 17.0 8.5 25.0 15.5 16.5 14.0 13.5 0,67 3.0279 3.0103 3.4277 28.3 5.7 20.7 20.6 0.86 0.0951 Block & Decker (0.95) (0.05) 0.20 (0.80) 0.75 0.81 0.87 0.78 7.5 £ 18.0 18.5 19.4 9.2 26.3 38.5 20.3 15.4 11.6 13.5 8.8 16.8 10.0 E 9.0 18.0 Bob Evons Farms 1.00 0.1077 Brinker Int'l Brown & Brown 19.7 17.3 12.5 20.4 14.8 2.0177 3.6135 3.4979 3,3881 0.85 0.90 0.85 0.85 0.95 0.95 1.00 0.85 0.75 0.80 0.85 0.80 0.85 0.0885 (0.40) 0.07 0.1135 13.0 Buckle (The)lac. (0.42) 13.9 14.4 (1.38)0.37 0.91 0.71 0.82 Bunge Ltd. 1.33 0.1064 22.1 13.2 25.1 14.5 21.5 15.8 7.4.1 11.5 18.3 12.0 16.0 30.5 12.8 7.4 19.5 8.0 11.1 16.1 11.8 24.4 10.4 24.2 16.3 19.5 15.1 8.4 13.7 10.9 C.H. Robinson CBRL Group (0.02) (0.23) 3.448Z 3.4887 0.1083 (0.07) 0.1098 0.10 CDW Corp. 19.4 14.9 6.8 13.1 10.2 16.9 9.1 15.0 (0.35) (0.48) (0.56) 0.85 0.93 0.70 0.88 2,9116 2,9303 0.0920 CSX Corp. CVS Garemark Corp. 0.0971 0.1047 0.0919 (0.49) 11.5 13.0 (0.89) 3,0918 13.8 12.1 13.1 9.8 (0,64) (0.78) Cabat Corp. 3.3320 2.9249 3.2352 3.2895 3.4431 3.5421 3.2904 16.2 0.8 17.4 43.3 (4) (0.24) 15.0 (0.31) 0.92 0.94 0.91 0.55 0.60 0.82 0.75 0.63 0.71 0.94 Carlisle Cos. Casey's Gen'i Steres ChoicePoint Inc. 20.9 24.7 12.5 9.3 (0.11) (0.15) 1.66 16.0 27.0 16.5 17.5 10.5 14.0 12.0 14.0 11.5 57.5 0.1033 19.1 0,1081 0.1113 33,9 11.3 8.7 16.4 7,7 69.0 10.4 7.0 13.9 14.5 12.3 13.9 10.1 Caca-Cala Betting 43.3 (4) 12.8 8.3 18.6 11.9 11.6 18.2 10.9 70.1 (4) 12.8 59.6 (4) (0.59) (0.07) Constallation Brands Com Products Intil 0.1003 24.9 0.01 0.26 0.1102 Corporate Executive 3,5080 (0.48) 3.3849 0.1063 0.0944 Corrections Core. Amer. 12.1 18.1 10.6 21.3 11.6 (0.71) Cosico Wholesale (0.24) (0.48) 2,0063 0.0881 Crana Co. 11.3 (0.78) 5.32 0.75 0.55 0.84 0.87 210.3 14.1 43.5 16.8 0.10 3,1065 0.55 0.75 0.0970 DaVita Inc. 10.5 68.5 11.2 19.3 0.0916 12.5 51,2 14.6 22.6 19.4 112.6 15.2 16.5 16.8 45.5 16.9 17.1 12.5 (0.59) (0.69) Oel Monte Foods 4.24 31.5 (4) 2.39 0.90 3.3444 0,1050 Dall Inc. 13.9 0.0960 11.8 24.9 (0.47) 20.5 0.59 Diobold Inc. Dionex Corp. 24.0 15.5 14.0 0.31 21.0 22.7 7,1 16.1 6.7 3,1400 2,8322 0.0880 0.50 0.84 21,1 13,2 14,0 30,1 18,1 63,2 13,5 22,7 11,3 31,1 8,4 13,6 4,1 24.2 8.3 21.7 30.6 0.33 1.25 (0.231 0.90 1.00 1.00 1.00 0.70 0.80 0.90 0.80 0.85 0.94 0.94 0.53 0.63 (0.48) 3.5629 0,1119 ESCO Technologies 14.1 (0.33) (0.56) 15,3 16.2 13.5 East West Bancorp 3.4143 3.0038 0.0943 Fastman Chemical 17.0 122.5 12.6 24.9 15.9 37.8 10.2 16,5 55.7 (4) 13.9 18.5 12.9 18,0 22,0 13.5 (0.21) (0.15) 0.84 0.0892 15.4 Edwards Lifesciences 2.8400 0.1038 21.0 15.1 13.6 12.6 25.7 18.7 Energizer Haldings Grillan Carp. (0.47) (0.55) 3.3231 0.64 0.66 0.1044 11.6 14.1 12.0 18.0 0.16 2.8534 0.0899 HNI Corp. Hancock Holding 13.0 26.0 13.0 21.0 (0.64) (0.58) 0.90 0,83 0.78 3.0419 0.0955 27.6 16.8 13.3 5.0 29.6 15,4 13.3 6,1 3,2512 0,1021 1.14 Harley-Davidson (0.32) (0.64) 0.67 0.90 0.82 0.89 2.8776 0.0904 22.9 Harrah's Entertain. 2.9050 0.0913 8.9 15.0 4,5 (0.54) Hastro Inc. Healthcare R'ily Trust 0.95 (1.70)

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<u>Squithand Utivings. Inc.</u>
Comparable Earnings Analysis
for a Proxy Group of One Hundred Ferty. Two Nan-Utility Companies Comparable to the
Proxy Group of Eight AUS Unity Reports Whiter Companies (1)

			Slandard	riony Grayp of El	BILL NOS GISSE OF	ADVIS HINDS	Rote	of Return on B	look Common 6	quity, Net Worth	or Partners' Capite	1	
			Error	Standard						5-year A	rerage (2)	5-Year Proje	
Proxy Group of One Hundred Forty-Two Non-Utility Companies Comparable to the Prexy Group of Eight	Adı. Belə	Unasi Bela	of the Regression	Deviation of Bela	2002	2003	2004	2005	2006	Percent	Student's T-Statistic	Percent	Student's Y-Statistic
AUS Utility Reports Water Companies (1)			2,9216	0.0018	17.4	18.5	26.0	79.7	32.9	24.6	0.65	33.0 (4)	264
Tara Co.	1.00	0.93	3.5679	0.1121	20.9	19.2	17.4	19.2	20.5	19,4	0.09	14.0	(0.48)
Total System Sycs	1.00	0.95	3,4360	0.1080	42.9	21.0	29.9	25.7	23 5	28 6	1,04	20.5	0.59
Tupperware Brands		0 46	3.2754	0.1029	30.5	35.6	24 1	18.6	20.0	25.8	0.75	25.0	1,33
UnitedHealth Group	0.65		3,5183	0.1105	19.0	17.7	13.2	13.2	10.9	14.6	(0.36)	12.0	(0.80)
Universal Health Sv. '8'	0.75	0.57 0.74	3,5103	0.1118	30,5	27.9	22.8	21.0	18.2	24.2	0.59	15.0	(0.15)
WD-40 Co.	0.85	0.74	3,3856	0.1157	6.3	6.4	7.0	7.9	10,1	7.5	(1.13)	11.0	(0.97)
Washington Group Int1	0.95		3,3936	0.1140	5.4	12.4	5.4	10.0	12.5	9.9	(0.89)	12.5	(0.72)
WellPoint Inc.	0.85	0.75		0.1041	13.0	12.0	14.4	16.1	16.4	14.4	(0,421	17.0	0.02
Wolvenno World Wido	0,95	0.67	3.3135	0.1041	13.0	14.1	15.1	13.1	13.0	13.7	(0.49)	12.0	(0.80)
Zebra Techn, 'A'	1,00	0.96	3.6256	0,1098	70.4	9,3	15.2	16.5	17.0	25.7	0.74	19.0	0.34
Zimmer Holdings	0.75	0.60	3,4973		70.4	3,0							
Average for the Non-Utility Group	0.89	0.79	3,2284	0 1014									
Average for the Proxy Group of Eight AUS Utility Reports Water Companies	0.80	0.67	3.2277 (5	5) <u>0.1014</u>									
AUS COMY Reports Trater Companies			Charles of Street										
Uean										17,1%		16.2%	
Conclusion (6)											16.7% (6)		
										14.4%		14.2%	
Conservative Mean (7)										14.4.0			
Conservative Condusion (6)											14.3% (8)		

			for a Prany Gr	Squablend Ubiteg, Ing. Comparable Earnings And West On Parable Earnings And West On Parable Comparable for the Parable Comparable to the Ones, Comparable for the Andrew Comparable to the Comparable for t	Squetand Ubbles Inc. Camparable Earnings Aralyza idred Seventy-Three Non-Ublin Volum Line (Standard Edited)	23, Ing. 1s Analyza Non-Ublin Com nd Edinol Waler	panes Compa	atte te the					
							Rate	of Return on	Jook Common Ec	Rate of Robum on Obok Common Equity, Not Worth or Perpent, Capital	Parment Capita		100
Prosty Graup at One Hundred Seventy-Thrae Non-Utility	ž	91013	e e	Operation							Sindonic	1	Shudenic
Concerns Comparate to the Frank Creek of Food	9 5	9	Regressen	ol Bots	2002	5002	2002	3005	2002	Percent	T-Statistic	Percent	T-Statistic
ABIA Industries Inc.	0.8	0.66	0.1680	0,0995	12.1	8.2 \$	\$ 50°	¥	8 E	, co (		2 0 0 E	(0.55)
Abban Labs	8 8	0.78	2,9490	0.1120	9 R	6 K	7 %	25.5	i i	24.1	Ľ	0.03	0.70
Advance Auto Parts	8	15:0	3.73	0.1015	11.7	9.11	11.3	13.7	13.7	12.6	96.0	5.0	0.30
Y. Lin vegty	3	ā	2,360	0 0931	10.7	9.5	E .	5 5	128	12.5	(0.58)	18.0	, A.
Albemaris Carp.	8 8	6	2,0012	0.0680	52.6	42.4	9 C	3	7 .	1 St	82	0.01	700
Allegan (nc. After Camis) Com	3	5.0	3.3121	0,1040	7.7	0,0	128	233	8.5	16.8	(0.19)	212	8 2
Amer, Cata Strategies	B	0.0	3.0704	0.0964	6,4	52.	91.6	D	es v	7.6	(0.62)	0 ei	1.18
Amer. Greebings	8 6	2 5	12385	101.0	2,1				1.6	10.5	6	120	(0.73)
Amensource Bergen	2 6	9 2	3,22,16	0.1012	8.1	ž	17.2	23	18.7	10.9	(0.07	0.4.0	(0.30)
Analy Captal Mont	8	0.95	3,1994	0.1005	83	15.7	9	6.4	o i	22.5	(0.58)	0.5	(0.20)
Apreha Carp.	8 1	8 I	3,3705	0.1059	5.5	- u	8 8	2 2	7.0	2 1.5	2 4	0.0	700
Applebage Infl	2 2	9	35143	0.1104	R	, E	82	'n	18.0	26 5	8	120	(0.73)
Arthur Daniele Maid	29	0.72	1,4393	0.10%	6.0	6.2	٠. ن	6.00	7 10	¥ 10	(0.09)	5 5	(50°C)
Arraw Init	0.75	ត្រ	2722	0.1028		200	n 45	9 15	2 2	75	950	16.5	0.0
Games Graup	3 8	5 6	33062	0.0	8	2	22	ĸ	8	ā	0.54	27	50.
Recklos DVR 1	8	0.86	27787	0.0873	10.4	17.0	19.5	Ä,	80.8	17.7	20.0	57.	(0.64)
Sigmet	0.75	9,6	3032	0.0952	Ř	223	2 5	24.8	202	22.2	2 5	2.0	50
Black & Dacker	8 8	98.0	6/20 C	5600	9.5	() () () ()	1 1 5	, e	2,5		(0.93)	22	(C, D)
Bob Evans Farms	8 8	0.30	3.1207	0.0963	6.0	10.6	7	10.8	3.5	96	(0.67)	10.0	(1.03)
Grange & Stration	19	1.02	33685	0.1058	11.0	15.7	9.9	9	e i	2 5	(0.08)	16.5	0.0
Brinker Int	0.50	6.81	3.4277	701.0	17.0	15.1	ន់	2 2	0.00	e H	5 6	S S	9 9
Bristol-Rkyers Squibb	3 8	0.0	2,8177	0.0885	1 2	, r	Ŕ	7.61	18.5	R	0.32	5.51	(0.11)
Buckle (Thelloc.	9	0.70	3,0135	0.1135	12.1	11,3	0.01	17.3	4,0,1	9 7	(0.03)	0.47	e -
C.H. Retinsen	<b>S</b>	10.0	3.3891	100.0	27:	វ	ų ;	. ¥	5 55	183	60.0	15.50	(0.11)
CBAL Graup	3 8	0.82	3.4657	0.1096	R	16.5	4.6	21.5	8	19.5	Z	16.5	0.07
CLARGOR INC.	680	0.05	2.9116	0.0914	14.8	14.7	9,4	15.0	15.4	5	P. 5	D 4	Ř 9
CSX Com.	8	55	2,9303	0.0920	V. 1	6.5	e r	6 5	9 5	4 K	2 5		(0.62)
CVS Caremark Corp.	2 6	0.50	3.130	0.1047	2.2	11,8	10.2	1.5	B	10.9	(67.0)	0.0	(0.55)
Carlisle Car.	0.95	0.92	2.9249	0.0215	13.1	Ž.		i i	9, 0, 6, 0,	(6.2	0. 14.5	0.50	Ŕ £
Capay's Gent Stores	<u> </u>	# C	3,7357	0.1016	en e	E 5	ej å	9 5		9 <del>1</del> 1	100	9	(0.02
Chorophont Inc.	. i	5 S	3,4431	0.1081	g	50.5	ä	5 5	24.7	123 (41	70	27.0	8
Columbia Sportsveer	20.	9.	3,4666	0.1059	71.7	18.7	17.8	971	¥ ;	E .	70.0	0.51	Ŕ Ŕ
Commerce Bancers MJ	8 8	2 2	3,2218	0.1012	no co	ži či	, c	2,4	7.5	13.5	ĝ :	4. A.	(0.11)
Contrast inc.	3 2	S 28	15421	0.113	16.4	17	12	12.8	12.5 E	921	(25.0)	3.0	0.07
Cara Products Inci	0.90	0.62	3,2304	0.100	7.0	6.5	6.7	7.	66	66	6	5,71	X :
Corporate Executiva	0.65	27.5	3.5080	0.1102	5	10.4	9 6	8.5	54.5	9.0	0.12	6.04	(0.38)
Corrections Corp. Amer.	0.80	2 2	1,0071	0.0944	2	10.	1.6	1.1	121	11.6	(0.69)	12.0	(F.0)
Crano Ca.	8	380	2,6063	1000.0	13.8	ti ti	17.7		ij	16.2	6. 6 6. 6	071	(0.38)
Curbss-Whight	900	2	3.2501	0.1021	.0.	6.0	2 5		900	10.3	(0.59	0.91	0.02
Cyline Inde.	3 5	27.0	3.1065	0.0076	202	53.2	. S	ž	21.5	70.1	5.76	17.5	0.25
Datacense Corp.	1.10	5	3.5476	0.1114	E 6	7.9	6.5	5.5	, ,	0.0	1.04	us, w	(3,16)
Dara & Co.	8 5	98.0	2,8711	0.0902	10.1	16.1	12.7	10.4	F 50.5	12.8	(0,52)	. E	(0.82)
Oel Mante Facds Defina	2 8	0.93	3.3444	0.1050	2 0	127	21.5	976	68.5	59.6 (4)	3	(v)	5,72
Disbold Inc.	0.95	0.87	3.0470	0.0960	5.6	15.2	8. £	2.0	7.5	6.57	6 6 7	240	6.79
Dienex Corp.	8 8	9 5	2,832	0.0380	2 7	21.3	3 5	21.7	242	7.7	0.48	13.5	(0.11)
Consider Co. ESCO Technologies	8	38.0	3.9629	0,1119	7.5	27	112.6	23.7	E C	P I	¥.	14.0	(0.36)
East West Barnony	8	0.94	3,6143	0.1072	5.0	16.3	10 14 A	# · ·	- ¥	E.S.	6.24	2,02	(0.46)
Eastman Chemical	8 5	\$ U	3,0000	0.0892	15.4	15.2	n 0	5 5	12.0		(0.15)	100	(0.02)
Energizer Holdings	80	2	3.3041	0.1038	79.	21,0	5. 5.	13	22.5			225	
Ethan Allen Intendra	8 8	8 8	3,1892	0.1005	16.7	31.7	19.3	# D	21.2 120 E	<u> </u>	0.52	5.55	(0.64)
Fancia Mas G&K Secrets 'A'	3 7	10	3,4599	0,1087	11.2	, D)	3			6.	(0.95)	\$5.5	(2.18)
Gentyle Greup	8 8	88.0	3.5243	0,1107	0 11	1.5	13.2	15.6	126	2, C	5 6 5 6	13.9	(0.45)
Griffen Cerp. Hitl Carp.	080	990	7827	0.0599	ž	13.8	12.1	727	6 72	18.5	0.11	18.0	7,0
Kencork Helding	8	0,63	3,0410	0.0058	12.0	126	125	r.	15.9	67.1	(0.51)	13.0	(cc.a)

			for a Press Gr	for a Prary Group of One Hundrad Starents There Hondlidin Campanes Companible to the Prary Group of Four Liza (Staretied Editor) Miser Campanes (S) Starbard	ad Savanly-Tive	e Non-Uliky Ger ard Edition) Wate	r Campanes (	rable to the 3)	esk Commen Er	July, Mat Wenth e	rysable to the 1.[9] Is of Return on Book Commen Equity, Hal Weeth of Portrem Cabital	l	
Sed So.	Adi	Orse is	ef the	Standard	Ş	ş	ĝ		2000	Percent	Student to	"	Student's Student's
Valva Una (Standard Edition) vyalar Companies (2) Harley-Oavidson	0.00	0.78	3.2512	0.1021	28.0	25.7	57.6	F .	37.8	28.5	Ē,	28.0	12.1
Homati's Enlectom. Hatbe Inc.	9 <b>9</b>	0.82	2,8778	0.090	27. 8. 9.	15.3	13.5	13.8	180	, r	1970	23.0	0.88
Healthcare Ally Total	8 5	0.97	2,9243	81000 D0500	9. đ	7.7	S 2	21.7	, Ľ	. g	ξ 4.	6.5 0.67	7,0
COUNTY CO	2.0	13.5	15123	0.1110		5 5	16.6	21.5	21.4	15.1	0.07	17.5	50 G
INOP Corp. Imatien Corp.	2 8	2.0	3,5117	B11.0	, E	, n	4.5	i in i	2;	*	8.5	20 2	(£,5)
inti Game Tech. Imagas Gam.	20.00 20.00	0.75	3.2644	0.100	2 2 2 3 3 3	3 E	0.0	27.	, F.	20	(0.82)	6	10.
Iran Mountain	8 8	7 5	3,0148	0.0347	7.0	7.5	7.	6.3	0 T	2,7 7,27	(5.05 (5.05)	120	(0.62)
Jones Apparel Group	8 8	5 - 6	29.62	0.0326	0.0	90	2.5	12.9	9 6 0 7	9.0	(58.0)	\$ D	(5.2) (5.2)
Keltwood Co. Kehl's Cart.	0.03 83.0	0.71	1,5654	R	i ii	3	Į.	<u> </u>	8 1		(a) (a)	7.5	X1 5
L-3 Communic Hidgs. Lanmater Colony	8.8	6 50 0 0	33681	0.020 0.020 0.03	9.8 9.0 9.0	16.1	<u> </u>	r. g	15.2	6.4	(62.0)		
(Lauder (Getea)	59.0	0.74	2.177	0.1020	m =	18.7	21.7	20.0	7, 57 8, 57 8, 58	5 E	7 J	27.0 25.0 3.0 3.0 3.0 3.0 3.0 3.0 3.0 3.0 3.0 3	
Leggett & Plan Uny (Eß)	8 8	19.7°C	730BV	0.60	32.7	28.6	Ħ	R	5	30.0		5 57	8
Uncolo Blee Hidge. (in Calabras	. 5 8 8	E 5	29254	0.0918	17.2	17.7	7.5	15.8	20.02 2.45	25.6	-	. e	(1,19)
Lowe's Cos.	8 8	8 6	3.0459	0.0957	7.71	1.87	9 5	1.6t E. 65	19.7	18.7	5.5	0.00	() () () () ()
Manar Care Member Oil Corp.	8	16.0	3.1540	0.099	3 =	16.7	16.2	26.1	7,16	Ŕ	0.32	17.5	X.
Master Corp.	8 5	0.52	3,0021	0.0943	14.8	75,7	10.5 6.15	23.1	21.8	ž i	0.01	250	1.59
Mathematint	2 2 1	10	2,964	0.0002	5	44	0.0	4.0	991	10.2	808	14.5	ស្តិ៍ ខ
McKreson Corp. Majoria Corp.	0.95 0.15	5 G	3.100	0.0076	22.2	7 2	7 9	16.6	5.0	6.8	0.25	2.5	0.08
Murphy Off Corp.	B	0.97	3.537	0.1111	1 5 1	13.1	17.8	21.0	571	14.6	0.07	15.0	(0.20)
Nowell Rubbermaid	88	0.07	30156	0.0347	R	20.2	27.8	73.8	6.42	22	95	22,	8
Notice Energy Northern Deres	88	8. 5. 8. 8.	33380	0.1045	117	E 2	5 5	i i	2.2	2.7	(S. 6)	15.0	28
Hereik Southern	8 8	56.0	3,4080	0.1070	7.1	7,5	10.9	125	19.4	7.0.7	(0.75)	125	(0.55)
O Resity Athemativo	8	5	2,8684	0.090	16.2	ž	2	30	27	272	0.32	0	S
Oshkoth Trock Overgest Shiphalding	88	B 60	3.55 2.55 2.55 2.55 3.55 3.55 3.55 3.55	0.1046	2,4 8,6	5.0 8.0	7.22	19.6 24.8	19.1	17.2	6 6 6 5	120	0.34 (0.73)
Overs & Minor	86.0	79.0	1021.0	20802	1.0	5 5	5.0	13.0	10.2 1.2	13.5	6. 2.0	14.0 7.0	(0.38)
Padne Cap. Bancerp Pacty Corp.	8 8	28.0	2.505.	0.0322	2.5	21.7	7.61	E	1 10 1	ផ្ល	150	90	7
Past Corp. Green John's Int	25.00	0.96 0.57	2,0764	0.000	28.5 18.4	20.02	280	25.7	123	2 %	2 5	2 2	E C
Penn Virginia Res.	0.75	8 8	3,0425	0.7956	15.2	, t	52	22	21.2	4.0	12.5	58.0	7 (
Pena, R.E.J.I. Pentak Inc.	8.5	3 E	3,4951	801.0	2 12	3 -	9 SP	. E.	10.1	1 2	0.70	13.5	(0.45)
Pessi Batting Graup	8 8	3 £	3.6317	0.1078	22.5	ลี	n c	2 2	X :	និទ	20° -	252	1.03
Philas Inc.	8	1.0	2,8236	0.0003	6.5	50	ž.	ä	21.0	27.0	3.5	0.61	0.52
Philips-Ven Hausen Pagu Preduding	3 8	9 5	3,5695	0,1118	7.6	2	į	9.00	, <del>,</del>	2	(0.51)	2,5	3
Pole Ralph Lauren 'A'	8 5	0.98	3.5150	9.10t	55.E	13.0	25.55	150	150 150 150 150	7.50	(1.33	31.0	
Quaker Chemical	8	8	3.6102	7.0	16.2	13.2	2	9	7.0	10.6	(0,76)		
Quest Diagnostics RARE Hospitalin	0.95	0.97	3,3702	0.1047	11,6	120	22; 22;	12.6	2 2	127	G.53	52)	(3.5)
RUI Corp.	0.85	77.0	2,8032	0.0580	* E	10.6	16.5	0 4	18.2	17.6	6.33	15.0	(0.54)
Regal-Balat	5.1	=	3.0218	0.0949	10	5	2.5	7.01	9,	B.7	6.07	125	(0.04)
Regra Com. Realified free	6 6 6 8	0.69	3,5906	0.1120	15.8	19.0	5 5	15. V.	12.5	15.8 2.55	\$ £	14.5	(0.23)
Resproyed inc.	8	7.0	3.2090	0.1036	2.5	5.5	5.5	7.5	7.52	20.5	6.6	2.5	(0.46)
Roper Inda. Ruby Yusaday	0 0	200	3,4564	0.1085	7.7	21.3	8	6.2	18.2	\$ P.	H	19.0	0.52
Ruddick Carp.	35	27.0	17792	0.0873	123	25	E E	2 5	5 K	43.5 (4)		iş ki Re zi	35
SUM COMPARED SUPERVALU RIC.	8	3 8	3.299	0.1630	17.8	5	55	123	6			55	(0.02)
Scotts Nirscla-Gro	2,00	0.50	3,0679	0.1059	20.5	2,47	1.5	nt in	22	0.00	6,0	273	108
Service Techn.	8.0 8.0	0.85	2.9419	0.0860	16.2		11.5	1. F.	17.5	6 II 9	(0.62) (0.05)	€ 2 2 2 3	
Crapted Foods	0.95	88	3,1603	0.0939	22	10.1	7.21	4.0	0.5 E	6 G	(5.82)		E 12
Solve Carp.	06.0	0.83	2.0521	65600	S F	15.6	17.2	24.5	0.0	9 5	0.26	29.5	12.2
Stander Infl	3	ה'ת ה'ת	3,000.0	15.5	•	Š	2	į	2	•	1	}	• • • • •

Southland Utilities, Ing Comparable Earnings Analysis for a Prany Group of One Hundred Seventy Three Hon-Utility Companies Comparable to the

			<b>ತಿ</b> ಭಾಗತ್ಯೇಕ				Rote	of Return on	Book Common F		or Parmers' Capi		
Praxy Group of One Hundred Seventy-Three Non-Utility			Error	Standard						5-year Av		5-Year Pro	
Companies Comparable to the Proxy Group of Four	Adj.	Unadi.	of the	Deviation							Students		Student's
Value Line (Standard Edition) Water Companies (9)	Dota	Beta	Regression	of Deta	7002	7703	7004	2005	200G	Percent	Y-Statistic	Percent	TiStatistic
Stanley Works	0.90	0.02	3.1559	0.0991	20.7	18.6	20.2	16.9	18.7	195	0.22	15.5	(0.11
Starbucks Corp.	0.75	0.55	3,4961	0,1070	12.6	12.5	15.8	20.7	26.1	15.2	0.08	22.5	1.14
Sleak n Shake	1.06	1.06	3.3746	0.1060	13.8	12.0	126	11,0	0.8	122	(0.59)	11.0	(0.9)
Stryker Corp.	0.80	0.64	3 0723	0.0965	23 8	21.0	21.3	22.1	19.8	21.6	0.45	24.5	1,50
Sybase Inc	1.00	0.00	3.5421	0.1113	13.7	10.5	8.7	12.2	11.3	11,3	(0.68)	13.5	(0.46
TJX Companies	0.95	0.66	3.1085	0.0976	41.0	47.4	41.3	33.5	33 9	35 4 (4		38.0 (4)	
Target Corp.	1.00	1.00	3.0016	0.0968	17.5	15.6	14.5	17.0	17.8	19,7	(0.09)	19.5	0.51
Techne Carp.	1,10	1.09	3.6070	0.1133	19,6	19.2	18.3	24.7	21.6	20.5	0.33	17.5	0.25
Tektronix Inc.	1,10	1.08	3,3456	0.1051	5,1	4.5	10.7	10.4	9.7	8.1	(1.03)	12.6	(0.64)
Tennant Co.	0.95	0.91	3.7448	0.1018	8,0	₹.5	5.5	11.9	13.0	10.0	(0.82)	12.0	(0.73)
Themburg Mity,	0.60	0.69	3.0062	0.0945	14,\$	14.2	13.0	128	12.5	13.4 (4	(0.45)	10.0 (4)	
Topps Co.	0.90	0.80	3 4131	0.1072	8.6	5.0	5.9	2.6	8.0 E	5.8	(1.29)	12.5	(0.64)
Yore Ce.	1.00	0.33	2,0216	0.0916	17.4	16.5	20.0	79.7	32.9	24.5	0.80	33.0 (4)	
Total System Svcs.	1,00	0.95	3.5679	0.1121	20.9	192	17.4	19.2	70.5	19.4	0.21	14.0	(0.38)
Tupperware Brands	1.00	0.96	3.4380	0.1080	42.9	21.0	29.9	25 7	23.5	28.5	1.22	20.5	0.79
United Stationers	1,10	1,10	3.1648	0.0994	11.7	12.3	13.4	12.7	12.9	126	(0.54)	12.5	(0.84)
Umversal Health Sv. 'B'	0.75	0.57	3.5163	0.1105	19.0	17.7	13.2	13.2	10,9	14,8	(0.30)	120	(0.73
Viad Corp.	1.10	1.09	2.9171	0.1786	17.5	13.2	8.7	9.2	5.6	11.2	(0.69)	95	(1.18)
WQ-40 Co.	0 B.S	0.74	3.5600	0.1118	30.5	27.9	22.0	21.6	18 2	24.2	0.74	16.0	(0.02
Washington Group Int1	0.95	0.87	3,3956	0.1167	6.3	6.4	7.0	7.9	10.1	7.5	(1,10)	11.0	(0.91)
Werner Enterprises	1,05	1,02	3.4478	0.1083	9.5	104	11.3	11,4	11.3	10,8	(0.74)	10.5	(1.00)
Weiverine World Wide	0.95	0.87	3 3 1 3 5	0.1041	13.0	12.0	14.4	16.1	15.4	14,4	(0.34)	17.0	0.16
Zale Cerp.	1.05	1.05	3.5166	0.1105	10,8	15.2	14.7	13,1	5.2	11,8	(0.53)	10.0	(1.09)
Zimmer Heidings	0.75	0.60	3 4973	0.1095	70.4	9.3	15.7	15.5	17.0	25.7	0.90	19,0	0.52
Average for the Non-Utility Group	0.93	0.85	3.2075	0.1013									
Average for the Proxy Group of Four													
Value Une (Standard Edition) Water Companies	0.90	0.81	3.1940 (10	0,1003									
Mean										16.0%		15.5%	
Conclusion (6)											15.9% (6)		
Conservative Mean (71										14,3%		14.1%	
Conservative Condusion (8)											14.2% (8)		

See pages 7 and 8 for notes.

### Southland Utilities, Inc. Comparable Earnings Analysis

### E Estimated

- Notes: (1) The criteria for selection of the proxy group of one hundred forty-two non-utility companies was that the non-utility companies be domestic and have a meaningful rate of return on book common equity, shareholders' equity, net worth, or partners' capital for each of the five years ended 2006 or projected 2010 2012 as reported in Value Line Investment Survey (Standard Edition). The proxy group of one hundred forty-two non-utility companies was selected based upon the proxy group of eight AUS Utility Reports water companies' unadjusted beta range of 0.37 0.97 and standard error of the regression range of 2.8023 3.6531. These ranges are based upon plus or minus three standard deviations of the unadjusted beta and standard error of the regression as detailed in Ms. Ahern's direct testimony. Plus or minus three standard deviations captures 99.73% of the distribution of unadjusted betas and standard errors of the regression.
  - (2) Ending 2006.
  - (3) 2010 2012.
  - (4) The Student's T-statistic associated with these returns exceeds 1.96 at the 95% level of confidence. Therefore, they have been excluded, as outliers, to arrive at proper mean historical and projected returns as fully explained in Ms. Ahern's testimony.
  - (5) The standard deviation of group of eight AUS Utility Reports water companies' standard error of the regression is 0.1418. The standard deviation of the standard error of the regression is calculated as follows:

Standard Deviation of the Std. Err. of the Regr. = Standard Error of the Regression  $\sqrt[4]{2N}$ 

where: N = number of observations. Since Value Line betas are derived from weekly price change observations over a period of five years, N = 259

Thus, 
$$0.1418 = 3.2277 = 3.2277$$
 $\sqrt{5}18 = 22.7596$ 

- (6) Mid-point of the arithmetic mean of the historical five year average and five year projected rate of return on book common equity, shareholder's equity, net worth, or partners' capital.
- (7) Arithmetic mean of historical five year rates of return and five year projected rates of return on net worth, common equity or partners' capital excluding those 20% and greater as well as those 8.2% or less, i.e., 200 basis points above the prospective yield of 6.2% on A rated Moody's public utility bonds (from page 1 of Schedule PMA-10.)
- (8) Mid-point of the arithmetic mean of historical five year rates of return and five year projected rates of return on net worth, common equity or partners' capital excluding those 20% and greater as well as those 8.6% or less, i.e., 200 basis points above the prospective yield of 6.6% on A rated Moody's public utility bonds (from page 1 of Schedule PMA-10.)
- (9) The criteria for selection of the proxy group of one hundred sixty-five non-utility companies was that the non-utility companies be domestic and have a meaningful rate of return on book common equity, net worth, or partners' capital for each of the five years ended 2006 or projected 2010 2012 as reported in Value Line Investment Survey (Standard Edition). The proxy group of one hundred sixty-five non-utility companies was selected based upon the

Exhibit No. \_\_\_\_ Schedule PMA-12 Page 8 of 8

### Southland Utilities, Inc. Comparable Earnings Analysis

proxy group of four Value Line (Standard Edition) water companies' unadjusted beta range of 0.51-1.11 and standard error of the regression range of 2.7731-3.6149. These ranges are based upon plus or minus three standard deviations of the unadjusted beta and standard error of the regression as detailed in Ms. Ahern's direct testimony. Plus or minus three standard deviations captures 99.73% of the distribution of unadjusted betas and standard errors of the regression.

(10) The standard deviation of the proxy group of four Value Line (Standard Edition) water companies' standard error of the regression is 0.1403 (3.1940 / 22.7596).

Source of Information: Value Line, Inc., June 15, 2007

Value Line Investment Survey (Standard Edition)

## Utilities Services of South Carolina, Inc. Authorized Returns on Common Equity and Common Equity Ratios for Electric and Gas Distribution Companies for the Twelve Months Ended June 2007

		<u>tc</u>	r the I welve Mo	nths Ended June 2007				
Date	Company	Type of Utility	State	Authorized Return on Common Equity	Authorized Common Equity Ratio		Moody's A Rated Public Utility Bond Yields (1)	Spread
5-Jul-06	Maine Public Service	Electric	ME	10 20 %	50 00 %	(2)(6)	6 42 %	3 78 %
24-Jul-05	Central Hudson Gas & Electric	Electric	NY	960	45 00	(2)(4)(7)	640	3 20
24-Jul-05	Central Hudson Gas & Electric	Gas	NY	960	45 00	(2)(6)(7)	6 40	3 20
26-Jul-06	AEP West Virginia	Electric	w	10 50	45 00	(2)(7)	6 40	4 10
28-Jul-06	Comonwealth Edison	Electric	IL.	10 05	42 86		640	3 65
23-Aug-06	New York Stale Electric & Gas	Electric	NY	9 55	41 60	(7)( <del>9</del> ) (7)	6 37	3 18
1-Sep-06	Northern States Power	Electric	MN	10 54	51 67	(3)(9)	6 37	4 17
14-Sep-06	PacifiCorp	Electric	OR	10 00	50 00	(2)(9)	6 37	3 63
20-Sep-06	Kinder Morgan	Gas	w	11 00	43 56	(2)(9)	6 37	4 63
26-Sep-06	Chesapeake Utilities	Gas	MD	10 75	53 00	(2)	6 20	4 55
6-Oct-06	Unitil Energy Systems	Electric	NH	9 67	43 10	(2)(4)(7)	6 20	3 47
20-Oct-06	Orange & Rockland Utilities	Gas	NY	9 80	48 00	(2)(4)(6)	6 20	3 60
2-Nov-06	CenterPoint Energy Minnesota Gas	Gas	MN	971	46 14	(3)	6 00	371
9-Nov-06	Public Service Electric & Gas	Gas	NJ LIN	10 00	47 40	(2)	6 00	4 00
21-Nov-06	Central Illinois Light	Electric	IL.	10 12	45 57	(7)	5 9B	4 14
21-Nov-06	Central Illinois Public Service	Electric	IL.	10 08	48 92	(7)	5 98	4 10
21-Nov-06	Illinios Power	Electric	iL	10 08	51 58	(7)	5 98	4 10
21-Nov-06	Consumers Energy	Gas	MI	11 00	35 06	(3)	5 98	5 02
1-Dec-06		Electric	UT	10 25	35 00	(2)(4)	5 98	4 27
	Pacificorp	Electric	CO	10 50	60 00	(2)(4)	5 98	4 52
1-Dec-06	Public Service of Colorado Central Vermont Public Service	Electric	Vī	10 75	55 57	(2)	5 98	4 77
7-Dec-06	<del></del>		MO	10 90	49 74	(2)	5 80	5 10
21-Dec-06	Empire District Electric	Electric Electric	MO	11 25	53 69		5.80	5 45
21-Dec-06	Kansas City Power & Light	Electric	VT	10 25	52 76	(2)	5.80	4 45
22-Dec-06	Green Mountain Power				32 33 -	(2)	5 80	4 20
5-Jan-07	OGE Electric Service	Electric	AR WA	10 00 10 40	44 00	(2)	5 80	4 60
5-Jan-07	Puget Sound Energy	Electric	WA	10 40	44 00		5 60	4 60
5-Jan-07	Puget Sound Energy	Gas	MI	11 00	42 94 -	(2)	5 80	5 20
9-Jan-07	SEMCO Energy Gas	Gas	PA	10 10	49 00	(7)	5 80	4 30
11-Jan-07	Metropolitan Edison	Electric Electric	PA PA	10 10	49 00	(7)	5 80	4 30
11-Jan-07	Pennysivania Electric	Electric	W	10 90	57 46	(1)	5 80	5 10
11-Jan-07	Wisconsin Public Service		VVI	10 90	57 46		5 80	5 10
11-Jan-07	Wisconsin Public Service	Gas Electric	OR	10 10	50 00 (5)		5 80	4 30
12-Jan-07	Porlland General Electric	Electric	W	10 80	54 13		5 80	5 00
19-Jan-07	Wisconsin Power and Light	Gas	W	10 80	54 13		5 80	5 00
19-Jan-07 26-Jan-07	Wisonsin Power and Light Fitchburg Gas & Electric	Gas	MA	10 00	34 10	(2)(4)	5 81	4 19
8-Feb-07	PPL Gas	Gas	PA	10 40	51 79 (5)	12/1-1	5 81	4 59
14-Mar-07	Connecticut Natural Gas	Gas	CT	10 16	53 60	(2)	5 96	4 14
20-Mar-07	Delmarya Power & Light	Gas	DE	10 25	46 90	(2)(3)	5 96	4 29
22-Mar-07	Rockland Electric	Electric	NJ	9 97	46 50	(2)(6)	5 90	4 07
22-Mar-07	Southern Union	Gas	MO	10 50	36 06	(=)(=)	5 90	4 60
29-Mar-07	Atmos Energy	Gas	TX	10 00	47 90 (5)		5 90	4 10
15-May-07	Appalachian Power	Electric	VA	10 00	41 11		5 85	4 15
17-May-07	Aquila Networks-MPS	Etectric	MO	10 25	48 17		5 85	4 40
17-May-07	Aquila Networks-L&P	Electric	MO	10 25	48 17		5 85	4 40
22-May-07	Monongahela Pow /Potomac Ed	Electric	w	10 50	46 07		5 97	4 53
22-May-07	Union Electric	Electric	MO	10 20	52 22		5 97	4 23
23-May-07	Nevada Power	Electric	NV	10 70	47 29		5 97	4 73
25-May-07 25-May-07	Public Service of New Hampshire	Electric	NH	9 67	47 66	(2)(6)	5 97	3 70
5-Jun-07	Cascade Natural Gas	Gas	OR	10 10	45 00	(2)	5 97	4 13
13-Jun-07	Northern States Power	Gas	ND	10 75	51 59	(2)	5 97	4.78
15-Jun-07	Entergy Arkansas	Electric	AR	9 90	32 .9 .	1-7	5 97	3 93
	Public Service of Colorado	Gas	co	10 25	60 - 7	(2)	5 97	4 28
18-Jun-07	Apparachian Pow (Wheeling Pow	Electric	w	10 50	42 88	(2)(11)	5 99	4 51
22-Jun-07 28-Jun-07	Arizona Public Service	Electric	AZ	10 75	54 50	(-)( -)	5 99	4 76
28-Jun-07 29-Jun-07	Yankee Gas Services	Gas	cī	10 10	50 30	(2)	5 99	4 11
	Public Service of New Mexico	Gas	NM	9,53	48.00	(2)	5.99	3.54
29-Jun-07		Ges	74186					4.29 %
	Average - All Cases			10.29 %	48.01 %		5.99 %	4.29 %
	Average - Litigated Cases			10.35 %	47.72 %		5.93 %	4.42 %

Prospective Yield on A Rated Public Utility Bonds

Average Spread between Authroized Returns on Common Equity and the yield on 10-year U S Treasury Notes for Litigated Cases

4.42

6 60

Indicated Common Equity Cost Rate

11.02

- Actual A rated yield represents the yield of the previous month if the order was issued on or after the 21st of each month, or the yield of two months prior if the order was issued on or before the 20th of each month. For example, the yield for 71/17/07 is the A rated Public Utility yield for July 2007 and the yield for 72/5/07 is the A rated Public Utility yield for August 2007.
   Crider followed full or partial stipulation settlement by the parties. Decision particulars not necessarily precedent-setting or specifically interior rate implemented prior to the issuance of final order, normally under bond and subject to refund.
   Rate change to be implemented in multiple steps.
   Hypothetical

  - (4) Rate change to be implemented in multiple steps
    (5) Hypothetical
    (6) Rate change applicable to electric distribution rates only
    (7) Rate change applicable to electric transmission and distribution rates only.
    (8) Indicated rate increase to be phased-in over four years, with a 6 88% ROR authorized for 2006, 6 89% for 2007, 7 09% for 2008, and 7 48% for 2009
    (9) Rate increase declined to \$114.9 million effective 1/1/07
    (10) From page 1 of Schedule PMA-10
    (11) Return implicit in settlement

  - \* Capital structure includes cost-free items or tax credit balances at the overall rate of return

Source of Information:
Major Rate Case Decisions - January 2005 - December 2006, Published by Regulatory Research Associates, Inc., An SNL Energy Company Regulatory Focus - Regulatory Study, Major Rate Case Decisions - January-June 2007, July 3 2007, Published by Regulatory Research Associates. Inc., An SNL Energy Company
Mergent Bond Record Monthly Update, June 2007, Vol. 74, No. 6